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# Financial **Section**

# Report of Independent **Accountants**

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## Independent Auditor's Report

**To the Board of Administration**
**California Public Employees' Retirement System**
**Sacramento, California**

We have audited the accompanying statement of fiduciary net assets of the fiduciary funds and the statement of net assets of the proprietary funds of the California Public Employees' Retirement System (the System or CalPERS), a component unit of the State of California, as of June 30, 2008, and the related statement of changes in fiduciary net assets of the fiduciary funds, and the statements of revenues, expenses and changes in fund net assets and cash flows of the proprietary funds for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the System's 2007 financial statements on which our report dated November 13, 2007, expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the fiduciary funds and the net assets of proprietary funds of the California Public Employees' Retirement System as of June 30, 2008, and the changes in fiduciary net assets of the fiduciary funds and the changes in net assets and cash flows of the proprietary funds for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

# Report of Independent **Accountants** (continued)

As discussed in Note 2, effective July 1, 2007, the System adopted the provisions of Governmental Accounting Standards Board Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27.*

As discussed in Note 5, actuarial data presented for the California Employers' Retirement Benefit Trust Fund was derived from actuarial valuations performed by actuarial firms engaged by participating employers. Actuarial valuations must comply with the CalPERS OPEB Assumption Model, which requires the use of specified actuarial methods and assumptions.

As also discussed in Note 5 to the financial statements, actual contributions made by the State of California to the Judges' Retirement Fund were significantly less than the actuarially determined annual required contribution. State of California contributions were used to fund benefit payments of the current period. As such, the Judges' Retirement Fund does not retain the accumulated contributions of active members. Management and legal counsel believe the State of California is legally required to provide contributions to fund benefits when due.

The global financial markets have experienced significant volatility. As a result, the fair value of the System's investments has declined subsequent to June 30, 2008, as described in Note 11.

The Management's Discussion and Analysis on pages 10 through 30, the Schedules of Funding Progress and the Schedules of Employer Contributions on pages 62 through 64 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The supporting schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Certified Public Accountants

Sacramento, California
November 20, 2008

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## Introduction

This section presents management's discussion and analysis of the California Public Employees' Retirement System (CalPERS) financial performance during the fiscal year ended June 30, 2008, and is presented as a narrative overview and analysis in conjunction with the Chief Executive Officer's Letter of Transmittal included in the Introductory Section of the CalPERS Comprehensive Annual Financial Report. The Management's Discussion and Analysis should be read in conjunction with the basic financial statements of CalPERS, as presented in the Comprehensive Annual Financial Report.

In addition to historical information, the Management's Discussion and Analysis includes certain forward-looking statements which involve certain risks and uncertainties. CalPERS actual results, performance, and achievements may differ materially from the results, performance, and achievements expressed or implied in such forward-looking statements, due to a wide range of factors, including changes in interest rates, changes in the securities markets, general economic conditions, and legislative changes, as well as other factors.

CalPERS is primarily responsible for administering retirement and health benefits, as well as administering supplemental retirement savings plans. CalPERS comprises a total of 16 funds, including five defined benefit pension funds, one other post-employment benefit fund, four defined contribution pension funds, four proprietary funds, and two agency funds. The Public Employees' Retirement Fund (PERF) is the primary fund administered by CalPERS.

## Financial Highlights

### Public Employees' Retirement Fund (PERF)

- The net assets of the PERF decreased by $13.2 billion, or 5.3 percent. The decrease was primarily due to the overall economic slowdown and lagging global equity markets. CalPERS, as a long-term investor, must view investment performance across a multi-year horizon. On a five-year basis, overall investment returns remain strong at 10.7 percent.
- The PERF net rate of return on investments was negative 5.1 percent on a fair value basis, approximately 12.9 percentage points less than the actuarially assumed 7.75 percent investment return. However, CalPERS earned double-digit gains in the four years leading up to the 2007-08 fiscal year.
- **Through CalPERS 15 year smoothing of investment returns, previous positive returns will cushion the impact of the 2007-08 fiscal year investment losses on employer contribution rates. As of June 30, 2007, the asset smoothing method set aside about 14 percent of the CalPERS fund as a "rainy day" fund. The negative 5.1 percent return for fiscal year 2007-08 uses up about 13 percent of the 14 percent "rainy day" fund, leaving about one percent. If this one percent is used evenly over 15 years, then employer contribution rates set by the June 30, 2008 actuarial valuations are estimated to be lower by up to 0.1 percent of payroll. However, given the decline in PERF investments between June 30 and October 31, 2008, it is not certain that the "rainy day" fund will be available beyond the June 30, 2008 actuarial valuations. This analysis also assumes that all other actuarial assumptions are realized in aggregate. It is important to note that in recent years, the demographic experience of most plans translated to increases in employer rates.**
- **As of June 30, 2007, the date of the most recent actuarial valuation, the PERF is funded at 87.2 percent, based on the actuarial value of assets.** A better measure of benefit security is the funded status on a market value of assets basis; on that basis, the funded status rose from 92.6 percent at June 30, 2006, to 101.2 percent at June 30, 2007.
- The PERF paid $10.9 billion in retirement benefits to 468,898 annuitants during 2008, compared to $10.1 billion paid to 455,208 annuitants during the 2007 fiscal year. Benefit payments increased primarily due to an increase in the number of new retirees and cost-of-living adjustments (COLA).
- The total active and inactive membership was 1,126,133 at June 30, 2008. The PERF received $3.5 billion in employee contributions from 836,914 active members and $7.2 billion in employer contributions from 1,573 employers during fiscal year 2008, compared with $3.3 billion and $6.4 billion in employee and employer contributions respectively, in fiscal year 2007.

Additional financial information related to the other pension funds administered by CalPERS is included in the Financial Analysis Section of the Management's Discussion and Analysis.

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### Health, Other Post-Employment Benefits & Long-Term Care Programs

- CalPERS administers the PERSCare, PERS Choice, and PERS Select self-funded health care programs. Financial activity for these programs is accounted for through the Public Employees' System Health Care Fund. The CalPERS self-funded health care program earned $115.4 million from operations, and unrestricted net assets increased by $150.0 million to $598.6 million. This increase can be attributed to an increase in self-insurance premiums and savings from pharmacy initiatives.
- Contributions to the California Employers' Retiree Benefit Trust Fund (CERBTF) were $655.0 million, with investment losses of $21.0 million. The net asset value of the CERBTF at June 30, 2008 was $643.6 million.
- The unrestricted net assets of the CalPERS Long-Term Care Program amounted to a deficit of $134.7 million at June 30, 2008. This amounts to an average deficit of $801 for each of the 168,140 enrollees. The Long-Term Care Program collected $299.5 million in premiums, and the approximate average annual premium per person was $1,781. The deficit of $134.7 million is a decrease of $707.5 million from the deficit of $842.3 million of June 30, 2007. The major source of the deficit decrease is Board-approved rate increases which resulted in a decrease in estimated Long-Term Care Fund liabilities.

## Critical Accounting Policies

CalPERS basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). CalPERS significant accounting policies are presented in Note 2 to the Basic Financial Statements, which are included in this Comprehensive Annual Financial Report. CalPERS follows accounting policies to comply with various applicable laws and regulations and the guidelines as established by the Governmental Accounting Standards Board (GASB).

CalPERS most significant management accounting policies relate to the following:

### Investments

**In accordance with GASB Statements 25 and 31, CalPERS investments are reported at fair value.** Many factors are considered in arriving at fair value. The fair value of investments in publicly held securities are generally based on actual market prices and quotations from major investment firms. In general, corporate bonds that do not have a published market price are valued based on yields currently available on comparable securities of issuers with similar credit ratings. The CalPERS Investment Office securities analysts or outside experts determine the criteria to identify comparable securities based on the size, industry, and profitability of the company offering the securities and the term, rate, and dollar amount of the security.

Mortgages are valued on the basis of the timing of future principal payments and the amount of interest payments discounted at prevailing interest rates for similar instruments. The prevailing interest rates for mortgages are generally based on the 30-year Treasury note rate, which can be found in financial publications. Market interest rate changes impact the likelihood of refinancing activity, which impacts the value of the mortgage investments. Declining interest rates will cause the value of mortgage investments to increase, but at a slower rate than non-callable similar duration securities.

**The fair value of real estate investments is estimated based on independent appraisals performed by CalPERS-approved appraisers who meet specific professional qualifications. Core and non-core real estate assets are appraised as required by the Board's policy for Equity Real Estate Appraisal and Valuation. Independent real estate appraisal firms provide an unbiased and neutral opinion of asset value. All appraisals are completed in compliance with NCREIF's Real Estate Investment Standards and the Appraisal Institute's Uniform Standards of Professional Appraisal Practice.**

**In accordance with GAAP, real estate construction development projects are accounted for and reported at cost until project completion, which approximates fair value. However, due to recent events in the real estate markets, CalPERS investments in single-family housing**

construction projects were appraised as of March 31, 2008, to establish the fair value of that sector of the CalPERS real estate portfolio. All housing assets will be appraised annually going forward.

Short-term investments are reported at fair value, when available, or at cost plus accrued interest, when quoted market values are not available.

Alternative investments consist of investments in a variety of markets and industries through partnerships, corporate entities, co-investments, direct investments, and other investments vehicles. Publicly traded alternative investments are valued based on quoted market prices. For alternative investments made through a structure where an investment manager is responsible for the valuation, management generally utilizes the manager's valuation, assuming a clean audit opinion under GAAP has been obtained. For direct investments where no readily ascertainable market value exists, management, in consultation with investment advisors, will determine the fair value. In making all fair value determinations, management will take into consideration the financial performance of the entity, cash flow analysis, recent sales prices, market comparable transactions, new round of financings, changes in economic conditions, and other pertinent information. These fair value estimates are, by their nature, subjective and based on judgment. Hedge funds are valued at fair value.

CalPERS holds investments in futures and options and enters into forward foreign currency exchange contracts. The fair value of futures, options, and forward foreign currency exchange contracts are determined based upon quoted market values.

CalPERS could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contract. CalPERS investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. Investment performance rates of return for asset classes and total funds are prepared using asset data by Wilshire Associates. The returns are based solely on Wilshire Associates' compilation and analysis of the data as provided by the master custodian, State Street Bank.

**Actuarial Valuation**

Actuarial valuations are used to determine the cost of pension benefits payable to the members of CalPERS who participate in the PERF, the Legislators' Retirement Fund (LRF), the Judges' Retirement Fund (JRF), and the Judges' Retirement Fund II (JRF II) as well as the related required contribution rates. The actuarial valuations include a number of significant assumptions, including the actuarial valuation method used, the asset valuation method, the rate of return on the investment portfolio, rate of inflation, projected salary increases, post-retirement benefits, and the life expectancy of members and beneficiaries. Significant actuarial assumptions used in the valuations are included in the Notes to the financial statements.

**Estimated Liabilities**

The Public Employees' Health Care Fund (HCF) establishes claim liabilities based on estimates of the ultimate costs of claims (including future claim adjustment expenses) that have been reported but not settled, and claims that have been incurred but not reported (IBNR). The estimated claims liability was calculated by the HCF's third-party administrator, using a variety of actuarial and statistical techniques, and adjusted for actual experience to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. Adjustments to claims liabilities are charged or credited to an expense in the periods in which they are made. The estimated claims liability is carried at its face amount, and no interest discount is assumed. The IBNR portion represents an estimate for claims that have been incurred prior to the fiscal year end, but have not been reported to the HCF.

The Public Employees' Long-Term Care Fund (LTCF) estimates the required funding level to provide for the payment of future claim benefits. This estimate is predicated upon participation levels that are expected to be achieved by the program. The LTCF establishes the current liability for future benefits based on the present value of such future benefits and expenses, less the present value of expected future premiums.

An actuarial valuation establishes the liability for future policy benefits based on the present value of future benefits and expenses less the present value of future premiums. The liability for future policy benefits was calculated by using a variety of actuarial and statistical techniques.

The actuarial valuations for the CERBTF are conducted by outside actuarial firms that must base their valuations on the CalPERS OPEB Assumption Model. This model requires the use of actuarial methods and assumptions similar to those employed for the PERF. An additional assumption used for the CERBTF is the health care cost trend rate. The actuarial valuation estimates the cost of future health and other post-employment benefit insurance premiums for current and retired participating employees.

## Overview of the Financial Statements

The Management's Discussion and Analysis provides an introduction to and overview of the CalPERS basic financial statements, which comprise the following components: Fund Financial Statements; Notes to the Basic Financial Statements; Required Supplementary Information; and Other Supplementary Schedules. Collectively, this information presents the combined net assets held in trust for pension benefits, other post-employment benefits, and the combined unrestricted net assets for each of the other funds administered by CalPERS as of June 30, 2008. It also summarizes the combined changes in net assets held in trust for pension and other post-employment benefits, the combined changes in unrestricted net assets, and the cash flows of the proprietary funds for the year then ended, along with an actuarial view on the funding status of the defined benefit plans. The information available in each of these sections is briefly summarized as follows.

### Fund Financial Statements

At June 30, 2008, financial statements are presented for the two types of funds administered by CalPERS: fiduciary funds and proprietary funds.

***Fiduciary Funds*** — include pension trust funds, one other post-employment defined benefit fund, and agency funds. The defined benefit plans administered by CalPERS include the PERF, LRF, JRF, JRF II, and the CERBTF. The defined contribution plans administered by CalPERS include the State Peace Officers' and Firefighters' Defined Contribution Plan Fund (SPOFF), the Public Agency Deferred Compensation Program (IRC 457), the Replacement Benefit Fund (RBF), and the Supplemental Contributions Program Fund (SCPF). The remaining fiduciary funds are the Old Age & Survivors' Insurance Revolving Fund (OASI), and the Contingency Reserve Agency Fund (CRF). The Volunteer Firefighters' Length of Service Award Fund (VFF), a fiduciary fund, was administered by CalPERS during the 2007-08 fiscal year until February 29, 2008. The fiduciary funds are used to account for resources held for the benefit of CalPERS participants. A statement of fiduciary net assets and a statement of changes in fiduciary net assets are presented for the fiduciary funds as of and for the year ended June 30, 2008, along with comparative total information as of and for the year ended June 30, 2007. These financial statements reflect the resources available to pay benefits to retirees and other beneficiaries as of year end, as well as the changes in those resources during the year.

***Proprietary Funds*** — include the following enterprise funds: the Public Employees' Health Care Fund (HCF), the Public Employees' Contingency Reserve Fund (CRF), the Public Employees' Long-Term Care Fund (LTCF), and the Public Employees' Deferred Compensation Fund (DCF). Proprietary funds are used to account for CalPERS business-type activities, where fees are charged to cover the costs of certain services, including long-term care, health care, and other benefits. A statement of net assets, a statement of revenues, expenses, and changes in fund net assets, and a statement of cash flows are presented for the proprietary funds as of June 30, 2008, and for the year then ended, along with comparative total information as of and for the year ended June 30, 2007. These financial statements reflect the net assets of, changes in net assets of, and cash flows from CalPERS business-type activities.

### Notes to the Basic Financial Statements

The financial statement notes provide additional information that is essential to a full understanding of the information provided in the fund financial statements. Information available in the notes to the financial statements is described below.

***Note 1*** — provides a general description of CalPERS, as well as a concise description of each of the funds administered by CalPERS. Information regarding employer and member

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participation in the pension plans administered by CalPERS is also provided.

***Note 2*** — provides a summary of significant accounting policies, including the basis of accounting for each of the fund types, investment accounting policies, management's use of estimates, information regarding the implementation of new accounting pronouncements, and other significant accounting policies.

***Note 3*** — provides information on cash and cash equivalents.

***Note 4*** — describes investments, including investing authority, investment risk categorizations, and additional information about cash, securities lending, and derivatives.

***Note 5*** — provides information about employer contributions to the pension and other post-employment benefit funds administered by CalPERS.

***Note 6*** — provides information on commitments.

***Note 7*** — provides information on potential contingencies of CalPERS.

***Note 8*** — provides detailed information on the estimated claims liability of the HCF.

***Note 9*** — provides information regarding the LTCF June 30, 2008 actuarial valuation.

***Note 10*** — provides information regarding the funded status and actuarial assumptions for the PERF, LRF, JRF, JRF II, and CERBTF.

***Note 11*** — provides information regarding subsequent events.

### Required Supplementary Information

Because of the long-term nature of a public defined benefit pension plan and other post-employment benefit plans, financial statements for the past year alone cannot provide sufficient information to properly reflect the funded position of the plans. Therefore, in addition to the basic financial statements, two required schedules of historical trend information related to the defined benefit and other post-employment benefit plans are presented as part of the Required Supplementary Information (RSI) section of the basic financial statements. These two schedules are the Required Supplemental Schedule of Funding Progress and the Required Supplemental Schedule of Employer Contributions. These two schedules are based on the actuarial valuations for the pension plans performed by CalPERS actuaries and the other post-employment benefits sponsoring employer actuaries, and provide additional actuarial information that contributes to the understanding of the changes in the actuarial funding and the funded status of these defined benefit and other post-employment benefit plans over the past six years. The actuarial information is based upon assumptions made about future events at the time the valuations were performed, and, therefore, the amounts presented are management's estimates. Also included as part of the RSI is the Required Supplemental Schedule of Claims Development Information for the HCF.

### Other Supplementary Schedules

Other schedules include detailed information on administrative expenses incurred by CalPERS-administered funds, as well as investment and other professional services expenses incurred.

## Financial Analysis of CalPERS Funds

### Public Employees' Retirement Fund (PERF)

***Plan Net Assets***

The PERF provides retirement benefits to State of California and other California public agency employees. PERF benefits are funded by member and employer contributions and by earnings on investments. The PERF net assets held in trust for benefits at June 30, 2008 were $237.9 billion, a decrease of $13.2 billion (5.3 percent) from $251.1 billion at June 30, 2007.

Additions to PERF net assets held in trust for benefits include employer and member contributions, offset by investment losses. For the 2008 fiscal year, employer and member contributions totaled $10.8 billion, an increase of $1.1 billion (11.3 percent) from the 2007 fiscal year. The increase in required contributions was due primarily to an

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increase in employer contributions. The PERF recognized a net investment loss of $12.5 billion for the 2008 fiscal year, compared with a net investment income of $40.7 billion for the 2007 fiscal year. Investment losses were due to the overall economic slowdown and lagging global equity markets.

Deductions from PERF net assets held in trust for benefits consist primarily of retirement, death, and survivor benefits, refunds, and administrative expenses. For the 2008 fiscal year, retirement, death, and survivor benefits totaled $10.9 billion, an increase of $0.8 billion (7.9 percent) from the 2007 fiscal year. The increase in benefit payments was primarily a result of an increase in the number of beneficiaries from 455,208 to 468,898 and COLA increases. For the 2008 fiscal year, the costs of administering the PERF benefits amounted to $402.3 million, an increase of approximately $123.9 million (44.5 percent) from the 2007 fiscal year due to the continuation of information technology projects and increased operating costs.

On a per member and beneficiary basis, the cost of

## Net Assets — PERF

(Dollars in Thousands)

| | 2008 | 2007 | Total Percentage Change |
|---|---|---|---|
| **Assets** | | | |
| Cash, Cash Equivalents & Total Receivables | $3,961,007 | $5,862,421 | (32.4%) |
| Investments | 237,129,465 | 251,396,742 | (5.7) |
| Securities Lending Collateral | 35,177,731 | 46,337,538 | (24.1) |
| Capital Assets & Other | 389,962 | 397,813 | (2.0) |
| **Total Assets** | **$276,658,165** | **$303,994,514** | **(9.0%)** |
| **Liabilities** | | | |
| Retirement Benefits in Process of Payment, Investment Settlement & Other | $3,564,955 | $6,534,294 | (45.4%) |
| Securities Lending Obligations | 35,177,731 | 46,337,538 | (24.1) |
| **Total Liabilities** | **$38,742,686** | **$52,871,832** | **(26.7%)** |
| **Total Net Assets** | **$237,915,479** | **$251,122,682** | **(5.3%)** |

## Changes in Net Assets — PERF

(Dollars in Thousands)

| | 2008 | 2007 | Total Percentage Change |
|---|---|---|---|
| **Additions** | | | |
| Member Contributions | $3,512,075 | $3,262,699 | 7.6% |
| Employer Contributions | 7,242,802 | 6,442,384 | 12.4 |
| Investment (Losses) Income | (12,499,110) | 40,748,261 | (130.7) |
| Other | 6,202 | 9,119 | (32.0) |
| **Total Additions** | **($1,738,031)** | **$50,462,463** | **(103.4%)** |
| **Deductions** | | | |
| Retirement Benefits | $10,884,417 | $10,070,555 | 8.1% |
| Refund of Contributions | 182,415 | 181,574 | 0.5 |
| Administrative Expenses | 402,340 | 278,453 | 44.5 |
| Other Expenses | — | — | — |
| **Total Deductions** | **$11,469,172** | **$10,530,582** | **8.9%** |
| **(Decrease) Increase in Net Assets** | **($13,207,203)** | **$39,931,881** | **(133.1%)** |
| **Net Assets Beginning of Year** | **$251,122,682** | **$211,190,801** | **18.9%** |
| **Net Assets End of Year** | **$237,915,479** | **$251,122,682** | **(5.3%)** |

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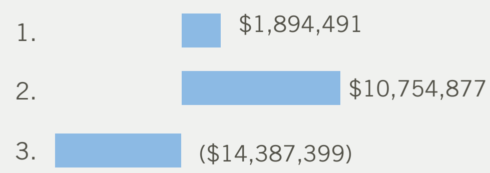
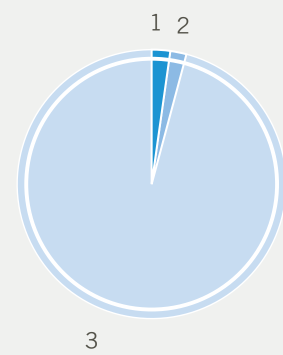
**Additions — PERF**
(Dollars in Thousands)

1. Investment and Other Income Excluding Net Depreciation
2. Retirement Contributions
3. Net Depreciation in Fair Value of Investments




**Deductions — PERF**
(Dollars in Thousands)

1. Administrative Expenses - $402,340
2. Contribution Refunds - $182,415
3. Retirement Benefits - $10,884,417




administering PERF benefits during the 2008 fiscal year was approximately $252 per individual, an increase of approximately $71 per individual from the 2007 fiscal year.

An actuarial valuation of PERF assets and benefit obligations is performed annually. At June 30, 2007, the date of the most recent actuarial valuation, the funded status of the PERF was 87.2 percent, which was unchanged from the funded status at June 30, 2006. The amount by which PERF actuarial benefit liabilities exceeded actuarial assets was $31.7 billion at June 30, 2007, compared with a $29.1 billion funding deficit at June 30, 2006. This increase relates primarily to the recognition of actuarial losses from prior fiscal years when the PERF incurred negative investment returns. Current year losses will affect future years' funded status and contribution rates using the CalPERS policy of actuarial asset smoothing.

***Investments***

PERF investments, excluding securities lending collateral, totaled $237.1 billion at June 30, 2008, which was $14.3 billion (5.7 percent) less than the $251.4 billion in total PERF investments at June 30, 2007.

At June 30, 2008, the PERF held $122.4 billion in domestic and international equity securities, a decrease of $27.3 billion from $149.7 billion at fiscal year end 2007. The decrease was mainly due to a significant drag on domestic and international equities from the downturn in global equity markets. Domestic equity and international equity securities earned returns of approximately a negative 12.3 percent and a negative 7.8 percent, respectively, for the 2008 fiscal year, compared to 20.6 percent and 29.8 percent, respectively, for fiscal year 2007.

CalPERS benchmark returns for domestic and international equity securities for fiscal year 2008 were a negative 12.0 percent and a negative 6.6 percent, respectively. CalPERS uses a Custom Wilshire 2500 Index to provide a benchmark for the domestic equity investment returns, and the FTSE All-World ex US Index for international equity investment returns. These benchmarks are representative of the returns that could be expected in a similar investing environment, and reflect the overall market conditions.

At June 30, 2008, the PERF held $59.9 billion in domestic and international debt securities, a decrease of $1.3 billion from $61.2 billion at fiscal year end 2007. Domestic debt securities returned approximately 6.5 percent, and international debt securities returned approximately 17.6 percent for the 2008 fiscal year, compared to 7.3 percent and 2.2 percent, respectively for fiscal year 2007. CalPERS benchmark returns were 7.8 percent and 17.5 percent, respectively. CalPERS uses the Lehman Long Liability Index and the Lehman International Fixed Income Index to provide a benchmark for fixed income investment returns. These benchmarks are representative of the returns that could be expected in a similar investing environment.

**At June 30, 2008, the PERF held $40.9 billion in real**

estate investments on a gross basis. The gross value of real estate investments equates to $21.8 billion in real estate value net of $19.1 billion in real estate related debt. The real estate debt amounts to 46.6 percent of the total gross real estate fair value. On a gross basis, real estate investments increased $4.0 billion from the $37.0 billion gross real estate investments at the 2007 fiscal year end.

In addition, the Investment Policy for Equity Real Estate Leverage provides for the use of Credit Accommodations. These accommodations generally refer to a guarantee executed by CalPERS, whereby CalPERS agrees to pay the debt obligation of a real estate partnership entity in the event the entity fails to pay the debt obligation.

Real estate investments returned approximately negative 12.6 percent for the 2008 fiscal year, compared to 15.9 percent for fiscal year 2007. The negative returns in real estate investments was primarily due to the downturn in the residential real estate market.

CalPERS benchmark for real estate return for fiscal year 2008 was 9.2 percent. CalPERS uses the NCREIF property Index to provide a benchmark for real estate investment returns. The NCREIF benchmark only includes core real estate assets, and by definition, these are lower risk, lower performing assets.

Real estate investments are classified as investments in accordance with GASB Statement 25. Certain real estate investments are leveraged whereby partnerships have been established to purchase properties through a combination of contributions from CalPERS and other investors and through the acquisition of debt.

The $19.1 billion in real estate debt is made up of $13.9 billion in long-term mortgages payable and $5.2 billion in other short-term liabilities.

For the Alternative Investments Management (AIM) program, CalPERS has private equity unfunded commitments of $26.4 billion that are not displayed on the Statement of Fiduciary Net Assets. In addition, CalPERS has real estate unfunded commitments of $17.1 billion that are not displayed on the Statement of Fiduciary Net Assets.

The CalPERS Board of Administration approved a new asset allocation, effective January 2008, which increased allocations to both real estate and private equity, and established a new Inflation Linked Asset Class (ILAC). The ILAC is Board-approved to include commodities, inflation-linked bonds, infrastructure, and forestland. At June 30, 2008, the ILAC held $1.6 billion in inflation-linked bonds, $0.1 billion in infrastructure, $1.6 billion in forestland, and $1.4 billion in commodities exposure. ILAC has not been held for a full year, therefore, an annual rate of return is not available.

At June 30, 2008, the PERF held $24.0 billion in alternative investments, an increase of $7.2 billion from $16.8 billion at the 2007 fiscal year end. Alternative investments yielded a return of approximately 5.8 percent for the 2008 fiscal year, compared to 27.1 percent for fiscal year 2007.

At June 30, 2008, the PERF held $4.3 billion in short-term investments, an increase of $0.7 billion from the $3.6 billion at the 2007 fiscal year end. Short-term investments returned approximately 4.3 percent for the 2008 fiscal year, compared to 5.5 percent for fiscal year 2007. CalPERS uses the SSGA Custom STIF as a benchmark for short-term investments.

The PERF earned other investment income of $155.6 million for the 2008 fiscal year. Included in other investment income was income earned from securities litigation, sale of fractional shares, and other miscellaneous income.

The PERF earns additional investment income by lending investment securities. Borrowers pay a fee for the right to borrow securities, and then provide collateral to the PERF for 102 percent to 105 percent of the values of the securities borrowed. The over collateralization ensures the PERF is made whole in the event the borrower fails to return the security. The PERF pays the borrower a rate for holding collateral, called a rebate. The PERF invests the cash collateral in short-term securities, and any spread above the rebate rate is additional income for the PERF. For the 2008 fiscal year, net securities lending losses amounted to $158.5 million,

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compared to the $154.7 million in net securities lending income during the 2007 fiscal year. The $158.5 million in securities lending unrealized losses resulted mainly from short-term income markets' volatility, resulting in a lack of liquidity throughout the short-term market.

CalPERS participates in Directed Brokerage/ Commission Recapture arrangements. The CalPERS Directed Brokerage Program had a balance of $1.3 million at July 1, 2007. For fiscal year 2008, brokerage commissions that were rebated totaled $2.3 million. Expenses in the amount of $1.1 million were incurred to purchase analytical tools, advisory, and other research materials. The Directed Brokerage

## Investments — PERF

(Dollars in Billions)

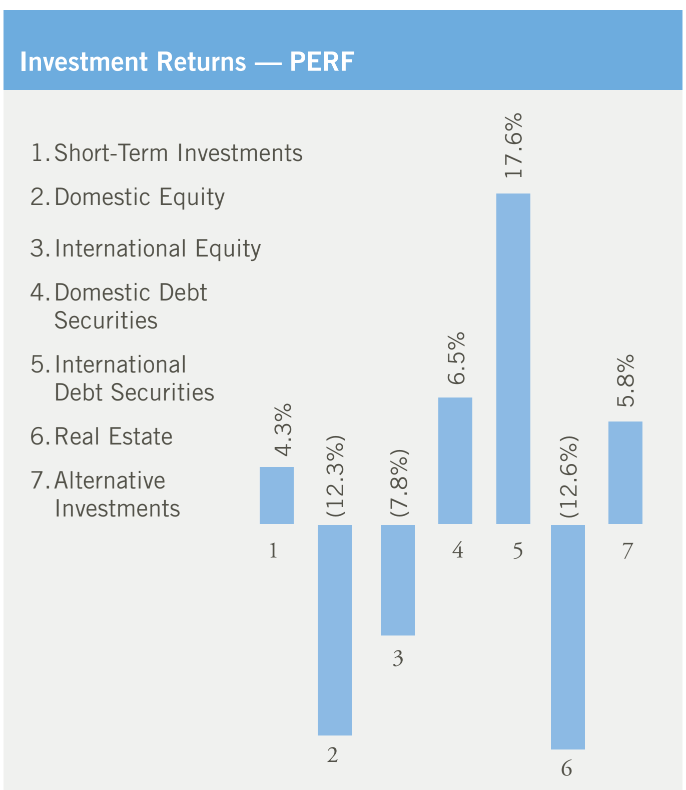
| Investment Class | Amount | Percent of Investments | Current Year Return | Prior Year Return | Benchmark Return |
|---|---|---|---|---|---|
| Short-Term Investments | $4.3 | 1.8% | 4.3% | 5.5% | 4.2%[1] |
| Domestic Equity | 73.9 | 31.2 | (12.3) | 20.6 | (12.0) |
| International Equity | 48.5 | 20.4 | (7.8) | 29.8 | (6.6) |
| Domestic Debt Securities | 55.7 | 23.5 | 6.5 | 7.3 | 7.8 |
| International Debt Securities | 4.2 | 1.8 | 17.6 | 2.2 | 17.5 |
| Inflation Linked | 4.7 | 2.0 | N/A | N/A | N/A |
| Real Estate | 21.8 | 9.2 | (12.6) | 15.9 | 9.2 |
| Alternative Investments | 24.0 | 10.1 | 5.8 | 27.1 | —[2] |
| **Total** | **$237.1** | **100.0%** | | | |
| **Total Fund Return** | | | **(5.1)%** | **19.1%** | **(2.3)**[3] |

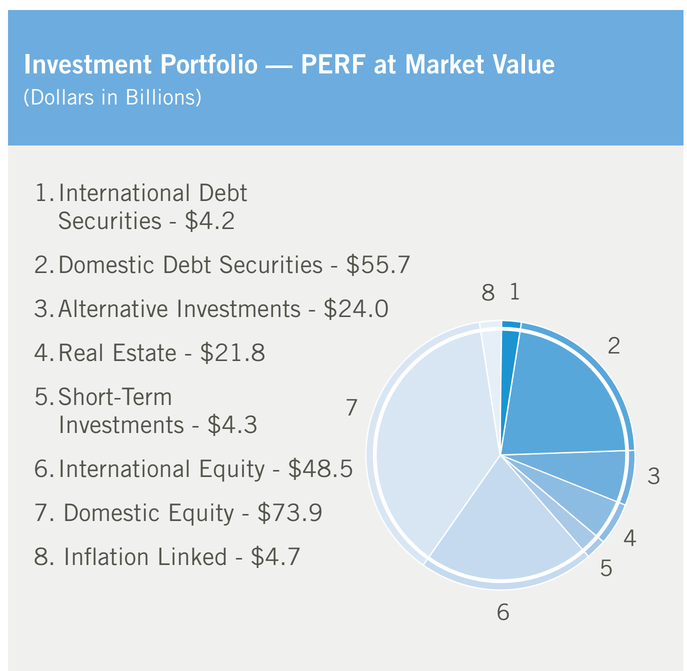
Note:

1 Benchmark reflects State Street Bank's Short-term Investment Fund for cash investments.

2 **A benchmark will be available at www.calpers.ca.gov in March of 2009.**

3 **CalPERS Policy Index**




Note:

Excludes $35.2 billion in securities lending collateral.

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Program had a balance of approximately $2.4 million at June 30, 2008. These amounts are recorded in the accompanying financial statements as of June 30, 2008.

CalPERS participates in asset-based lending, in which secured debt is loaned to non-investment grade borrowers, primarily for working capital, acquisitions, turnarounds, growth financing, debtor-in-possession financing, exit financing, and corporate recapitalization/reorganizations. In exchange for these loan amounts, CalPERS receives interest and fees from the borrowers. Interest and fee income earned was $22.3 million for the 2008 fiscal year, and outstanding commitments totaled $1.0 billion at June 30, 2008.

## Other Defined Benefit Pension Plans

### Legislators' Retirement Fund (LRF)

***Plan Net Assets***

The LRF provides retirement benefits to California Legislators elected to office before November 7, 1990, and to all Constitutional and Statutory Officers. The number of LRF members is declining as eligible incumbent Legislators leave office and are replaced by those ineligible to participate in the LRF.

The LRF net assets held in trust for benefits at June 30, 2008 totaled $134.1 million, a decrease of $8.1 million (5.7 percent) from June 30, 2007.

Additions to LRF net assets held in trust for benefits were from investment income and contributions to repurchase military and prior year service credit. There were no actuarially determined annual required employer and member contributions for 2008. Net investment income decreased $16.3 million (98.7 percent) to a net investment gain of $0.2 million for the 2008 fiscal year, from a net investment gain of $16.5 million for the 2007 fiscal year, due primarily to poorly performing domestic and international equity markets during 2008.

Deductions in LRF net assets held in trust for benefits are primarily composed of retirement, death, and survivor benefits. For the 2008 fiscal year, these benefits decreased $0.1 million (1.3 percent) to $7.6 million from $7.7 million in 2007. On a per member and beneficiary basis, the cost of administering LRF benefits during the 2008 fiscal year was approximately $1,315 per individual, an increase of approximately $290 per individual from the 2007 fiscal year due to increased direct expenses and an accrual of the State's OPEB costs.

An actuarial valuation of LRF assets and benefit obligations is performed annually using the aggregate cost method, which does not identify unfunded actuarial liabilities. Based on the most recent actuarial valuation, performed as of June 30, 2007, the active member contribution rate for the 2008 fiscal year remains at zero percent.

***Investments***

The LRF invests mainly in domestic and international equity securities, as well as domestic debt securities. LRF investments totaled $134.0 million at June 30, 2008, which was $7.8 million (5.5 percent) less than the $141.8 million in total LRF investments at June 30, 2007, due to a significant drag on domestic and international equities from the downturn in the global equity markets.

At June 30, 2008, the LRF held $51.2 million in domestic and international equity securities, a decrease of $6.1 million from $57.3 million at fiscal year end 2007. Domestic and

## Investments — LRF

(Dollars in Millions)

| Investment Class | Amount | Percent of Investments | Current Year Return | Prior Year Return | Benchmark Return |
|---|---|---|---|---|---|
| Domestic Equity | $38.3 | 28.6% | (13.4%) | 20.6% | (13.3%) |
| International Equity | 12.9 | 9.6 | (8.5) | 27.8 | (8.6) |
| Domestic Debt Securities | 82.8 | 61.8 | 7.0 | 6.8 | 7.8 |
| **Total or Overall Return** | **$134.0** | **100.0%** | **0.0%** | **12.6%** | **0.2%** |

international equity securities yielded returns of approximately negative 13.4 percent and negative 8.5 percent for fiscal year 2008 respectively, compared to the 20.6 percent and 27.8 percent for fiscal year 2007. CalPERS benchmark returns for the fiscal year 2008 were negative 13.3 percent and negative 8.6 percent. CalPERS uses the Custom S&P 500 Index and FTSE Developed World ex US & Tobacco Index (net of dividends), to provide a benchmark for the domestic and international equity investment returns, respectively. These benchmarks are representative of the returns that could be expected in a similar investing environment and reflect the overall market conditions.

At June 30, 2008, the LRF held $82.8 million in domestic debt securities, a decrease of $1.7 million from $84.5 million at fiscal year end 2007. Domestic debt

## Net Assets — Other Defined Benefit Pension Plan Funds

(Dollars in Thousands)

| | LRF | | JRF | | JRF II | | VFF | |
|---|---|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| **Assets** | | | | | | | | |
| Cash, Cash Equivalents & Receivables | $799 | $668 | $3,095 | $2,018 | $4,817 | $2,485 | $ — | $470 |
| Investments | 134,029 | 141,811 | 17,137 | 10,024 | 321,074 | 288,491 | — | 3,540 |
| **Total Assets** | **$134,828** | **$142,479** | **$20,232** | **$12,042** | **$325,891** | **$290,976** | **$ —** | **$4,010** |
| **Total Liabilities** | **$709** | **$270** | **$986** | **$369** | **$469** | **$244** | **$ —** | **$14** |
| **Total Net Assets** | **$134,119** | **$142,209** | **$19,246** | **$11,673** | **$325,422** | **$290,732** | **$ —** | **$3,996** |

## Changes in Net Assets — Other Defined Benefit Pension Plan Funds

(Dollars in Thousands)

| | LRF | | JRF | | JRF II | | VFF | |
|---|---|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| **Additions** | | | | | | | | |
| Member Contributions | $14 | $129 | $9,569 | $10,398 | $13,808 | $11,694 | $ — | $ — |
| Employer Contributions | — | — | 163,206 | 131,372 | 36,761 | 27,062 | — | 328 |
| Investment Income (Losses) | 223 | 16,530 | 384 | 1,186 | (12,184) | 35,427 | (127) | 470 |
| Other Income | — | — | 3,827 | 2,591 | — | — | — | — |
| **Total Additions** | **$237** | **$16,659** | **$176,986** | **$145,547** | **$38,385** | **$74,183** | **($127)** | **$798** |
| **Deductions** | | | | | | | | |
| Retirement Benefits | $7,621 | $7,666 | $168,304 | $151,059 | $964 | $1,005 | $98 | $120 |
| Refund of Contributions | 309 | 92 | 136 | — | 2,134 | 981 | — | — |
| Administrative Expenses | 397 | 323 | 973 | 701 | 597 | 451 | 101 | 116 |
| Other Expenses | — | — | — | — | — | — | — | — |
| Operating Transfer Out | — | — | — | — | — | — | 3,601 | — |
| **Total Deductions** | **$8,327** | **$8,081** | **$169,413** | **$151,760** | **$3,695** | **$2,437** | **$3,800** | **$236** |
| **Increase (Decrease) in Net Assets** | **($8,090)** | **$8,578** | **$7,573** | **($6,213)** | **$34,690** | **$71,746** | **($3,927)** | **$562** |
| **Prior Period Adjustment** | — | — | — | — | — | — | **(69)** | — |
| **Net Assets** | | | | | | | | |
| **Beginning of Year** | **$142,209** | **$133,631** | **$11,673** | **$17,886** | **$290,732** | **$218,986** | **$3,996** | **$3,434** |
| **End of Year** | **$134,119** | **$142,209** | **$19,246** | **$11,673** | **$325,422** | **$290,732** | **$ —** | **$3,996** |

securities returned 7.0 percent for fiscal year 2008, compared to 6.8 percent for fiscal year 2007. CalPERS benchmark return for fiscal year 2008 was 7.8 percent. CalPERS uses the Lehman Long Liability Index to provide a benchmark for our fixed income investment returns. This benchmark is representative of the returns that could be expected in a similar investing environment, and reflects the overall market characteristics.

## Judges' Retirement Fund (JRF)

### *Plan Net Assets*

The JRF provides retirement benefits to California Supreme and Appellate Court Justices and Superior Court Judges. The JRF net assets held in trust for benefits at June 30, 2008, totaled $19.2 million, an increase of $7.5 million from June 30, 2007.

Additions to JRF net assets held in trust for benefits include employer, State of California, and member contributions, as well as investment income. For the 2008 fiscal year, employer, State, and member contributions increased $31.0 million (21.9 percent) to $172.8 million, from $141.8 million for the 2007 fiscal year, primarily as a result of an increase in the State's contribution. For the 2008 fiscal year, net investment income decreased $0.8 million (67.6 percent) from the 2007 fiscal year due mainly to lower average asset balances throughout the year.

Deductions in JRF net assets held in trust for benefits are primarily composed of retirement, death, and survivor benefits. For the 2008 fiscal year, these benefits amounted to $168.3 million, an increase of $17.2 million (11.4 percent) from the 2007 fiscal year. The increase in benefit payments was mainly a result of a COLA and an increase in the number of JRF retirees and beneficiaries to 1,735 in the 2008 fiscal year from 1,702 in the 2007 fiscal year.

On a per member and beneficiary basis, the cost of administering JRF benefits during 2008 was approximately $402 per individual, an increase of approximately $117 per individual from fiscal year 2007. The increase is due primarily to increased direct costs in the 2008 fiscal year.

The JRF is funded on a "pay-as-you-go" basis, where short-term investments, contributions received during the year, and a State General Fund augmentation are used to provide funding for benefit payments. This funding method is generally more expensive in the long term, as the fund does not have investment returns generated by a funded plan. Without the State General Fund augmentation, the JRF will not be able to pay the accumulated benefit payments due in 2009.

### *Investments*

The JRF invests only in short-term securities. Total JRF investments were $17.1 million at June 30, 2008, which was $7.1 million more than the $10.0 million in total JRF investments at June 30, 2007. The increase in short-term investments is due to a rise in benefit payments from a growing retired member population and the resulting necessity for a larger General Fund augmentation to cover benefit payments. The increase in the General Fund augmentation results in a higher cash flow and larger balance in short-term investments. Short-term investments returned approximately 3.3 percent for fiscal year 2008, compared with the 5.3 percent for fiscal year 2007.

## Judges' Retirement Fund II (JRF II)

### *Plan Net Assets*

The JRF II provides retirement benefits to California Supreme and Appellate Court Justices, Superior Court Judges, and Municipal Court Judges first appointed or elected after November 9, 1994. The JRF II net assets held in trust for benefits at June 30, 2008 were $325.4 million, an increase of $34.7 million (11.9 percent) from June 30, 2007.

Additions to JRF II net assets held in trust for benefits include employer and member contributions, as well as investment income. Employer and member contributions increased $11.8 million (30.4 percent), to $50.6 million for the 2008 fiscal year, from $38.8 million for the 2007 fiscal year, primarily as a result of a 7.2 percent increase in active membership from 2007 to 2008. For the 2008 fiscal year, the JRF II incurred a net investment loss of $12.2 million, a decrease in income of approximately $47.6 million (134.5 percent) from the 2007 fiscal year net investment income of $35.4 million, primarily due to negative returns in equity and real estate investments.

Deductions in JRF II net assets held in trust for benefits

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## Investments — JRF II

(Dollars in Millions)

| Investment Class | Amount | Percent of Investments | Current Year Return | Prior Year Return | Benchmark Return |
|---|---|---|---|---|---|
| Short-Term Investments | $12.9 | 4.0% | 4.0% | 5.2% | N/A% |
| Domestic Equity | 101.0 | 31.5 | (13.4) | 20.5 | (13.3) |
| International Equity | 61.5 | 19.2 | (8.5) | 28.0 | (8.6) |
| Domestic Debt Securities | 117.8 | 36.6 | 7.0 | 6.5 | 7.8 |
| Real Estate | 27.8 | 8.7 | (13.4) | 11.9 | (15.4) |
| **Total or Overall Return** | **$321.0** | **100.0%** | **(4.7)%** | **15.8%** | **(2.2)%** |

are primarily composed of retirement, death, survivor benefits, and refunds of contributions. For the 2008 fiscal year, these benefits remained stable at $1.0 million. However, contribution refunds increased $1.1 million from $1.0 million in the 2007 fiscal year to $2.1 million in the 2008 fiscal year (117.5 percent), due to increasing numbers of judges placing their accumulated contributions with private investment companies.

On a per member and beneficiary basis, the cost of administering JRF II benefits during fiscal year 2008 was approximately $601 per individual, an increase of approximately $114 per individual from fiscal year 2007, due to increased membership and direct costs.

An actuarial valuation of the JRF II assets and benefit obligations is performed annually. At June 30, 2007, the date of the most recent actuarial valuation, the funded status of JRF II decreased to 90.7 percent from 96.7 percent at June 30, 2006. At June 30, 2007, the JRF II actuarial benefit obligations exceeded its actuarial assets by approximately $27.4 million, while the amount by which the JRF II actuarial benefit obligations exceeded its actuarial assets at June 30, 2006, was approximately $7.2 million.

### *Investments*

The JRF II invests mainly in short-term investments, domestic and international equity securities, domestic debt securities, and real estate equities. Total JRF II investments amounted to $321.0 million at June 30, 2008, which was $32.5 million (11.3 percent) more than the $288.5 million at June 30, 2007. The increase in total JRF II investments was primarily due to the increase in contributions and membership during the 2008 fiscal year.

At June 30, 2008, the JRF II held $162.5 million in domestic and international equity securities, an increase of $21.4 million from $141.1 million at fiscal year end 2007. Domestic and international equity securities yielded negative returns of approximately 13.4 percent and 8.5 percent, respectively, for fiscal year 2008, compared to the 20.5 percent and 28.0 percent, respectively, for fiscal year 2007. CalPERS benchmark returns for fiscal year 2008 were a negative 13.3 percent and a negative 8.6 percent, respectively. CalPERS uses the Custom S&P 500 Index and FTSE Developed World ex US & Tobacco Index, respectively, to provide a benchmark for our domestic and international equity investment returns. These benchmarks are representative of the returns that could be expected in a similar investing environment, and reflect the overall market characteristics.

At June 30, 2008, the JRF II held $117.8 million in domestic debt securities, an increase of $28.2 million from $89.6 million at fiscal year end 2007. Domestic debt securities returned approximately 7.0 percent for the 2008 fiscal year, compared to 6.5 percent for fiscal year 2007. CalPERS benchmark return for fiscal year 2008 was 7.8 percent. CalPERS uses the Lehman Long Liability Index to provide a benchmark for fixed income investment returns. This benchmark is representative of the returns that could be expected in a similar investing environment.

At June 30, 2008, the JRF II held $27.8 million in real estate investments, an increase of $3.0 million

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(12.1 percent) from the $24.8 million at the 2007 fiscal year end. **CalPERS benchmark returns for fiscal year 2008 was a negative 15.4 percent. CalPERS uses the DJ Wilshire RESI Index as the benchmark. The DJ Wilshire RESI Index is a benchmark made up of publicly traded REITs and these assets contain the entire spectrum of real estate property types and fund structures.** CalPERS continues to increase real estate holdings in opportunistic and international investments to fulfill investment diversification.

At June 30, 2008, the JRF II held $12.9 million in short-term investments, a decrease of $20.0 million from $32.9 million at fiscal year end 2007. Short-term investments returned approximately 4.0 percent for fiscal year 2008, compared to 5.2 percent for fiscal year 2007.

#### Volunteer Firefighters' Fund (VFF)

***Plan Net Assets***

The VFF provided monetary awards to volunteer firefighters. There are no VFF net assets reported because the assets and liabilities of the VFF were transferred from CalPERS to the California State Firefighters' Employee Welfare Benefits Corporation (CSFEWBC). The Statutes of 2007, Chapter 651, SEC. 3. added Article 7 (commencing with Section 50980) to Chapter 4.5 of Division 1 of Title 5 of the Government Code, which provided for the transfer of the data and files, assets and liabilities of the VFF from CalPERS to the CSFEWBC on or before March 1, 2008. Government Code Section 50985 provided that the transfer is deemed complete on the date CalPERS transferred the assets and liabilities of the VFF, and Government Code Section 50984 provided that upon the transfer, the CSFEWBC assumed all responsibility and liability of the VFF. Therefore, on February 29, 2008, CalPERS ceased administration of the Fund by transferring the assets and liabilities to the CSFEWBC. On that date responsibility for administration of the VFF was transferred to the CSFEWBC.

There are no contribution revenues for the eight month period ending February 29, 2008, because the contributions are normally determined annually after the close of each 12 month fiscal year. Participating fire departments and eligible firefighters for the previous fiscal year are reported to CalPERS up to three months after the close of the fiscal year. The participating fire departments are billed after the fire department submits a report of participation and number of eligible firefighters. The amount billed is based upon the number of eligible volunteer firefighters reported. At the time of the transfer of the Fund's assets and liabilities, a full fiscal year had not elapsed, and, therefore, contribution amounts to be billed to each participating fire department could not be determined. The new administrator is responsible for recording and collecting the contributions for the fiscal year ended 2008.

Deductions from VFF net assets held in trust included awards of approximately $98,000 for the eight month period ended February 29, 2008. This was an 18.3 percent decrease from the 2007 fiscal year due to the shorter period that the VFF was administered by CalPERS.

Additionally, as discussed in Note 1 of the Notes to the Basic Financial Statements, a $3.6 million transfer out was executed in order to transfer the VFF assets to the California State Fire Employees' Welfare Benefit Corporation.

***Investments***

The VFF invested mainly in domestic equity securities, international equity securities, domestic debt securities, and real estate equities. At the time all investment assets were liquidated for transfer of funds, the VFF incurred an investment loss of approximately $127,000 primarily due to losses in equity and real estate securities.

### Other Post-Employment Benefit Fund

#### California Employers' Retiree Benefit Trust Fund

***Plan Net Assets***

The CERBTF is a trust for the pre-funding by employers of health, dental and other non-pension benefits promised employees when they retire. The CERBTF net assets held in trust for benefits on June 30, 2008 were $643.6 million, an increase of $632.2 million due primarily to an increase of participating public agencies from two in the 2007 fiscal year, to 72 at June 30, 2008.

Additions to the CERBTF net assets held in trust for benefits include employer contributions. Employers participating contributed $655.0 million. During the 2008

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## Net Assets — California Employers' Retiree Benefit Trust Fund

(Dollars in Thousands)

| | CERBTF | |
|---|---|---|
| | **2008** | **2007** |
| **Assets** | | |
| Cash, Cash Equivalents & Receivables | $1,896 | $5,469 |
| Investments | 646,853 | 5,971 |
| **Total Assets** | **$648,749** | **$11,440** |
| **Total Liabilities** | **$5,110** | **$ —** |
| **Total Net Assets** | **$643,639** | **$11,440** |

## Changes in Net Assets — Other Post-Employment Benefit Fund

(Dollars in Thousands)

| | CERBTF | |
|---|---|---|
| | **2008** | **2007** |
| **Additions** | | |
| Employer Contributions | $655,030 | $11,469 |
| Investment (Losses) | (20,998) | (29) |
| **Total Additions** | **$634,032** | **$11,440** |
| **Deductions** | | |
| Administrative Expenses | $131 | $ — |
| Other Expenses | 1,702 | — |
| **Total Deductions** | **$1,833** | **$ —** |
| **Increase in Net Assets** | **$632,199** | **$11,440** |
| **Net Assets** | | |
| **Beginning of Year** | **$11,440** | **$ —** |
| **End of Year** | **$643,639** | **$11,440** |

fiscal year the CERBTF incurred a net investment loss of $21.0 million primarily due to equity market declines.

During the 2008 fiscal year there was $1.7 million in CERBTF deductions.

***Investments***

At June 30, 2008, the CERBTF held $202.5 million in short-term investments, $280.3 million in domestic and international equity securities, $115.9 million in domestic debt securities, and $48.1 million in real estate equities.

## Defined Contribution Pension Plans

### State Peace Officers' & Firefighters' Defined Contribution Plan Fund (SPOFF)

***Plan Net Assets***

The SPOFF provides supplemental retirement benefits to eligible safety employees. Net assets held in trust for pension benefits increased by $19.3 million (5.8 percent) to $354.7 million at June 30, 2008, from $335.4 million at June 30, 2007.

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Contribution revenues were $51.5 million for fiscal year 2008, an increase of 5.3 percent from fiscal year 2007. The increase to contribution revenues in fiscal year 2008 was due to an increase in membership. Net investment losses were $18.4 million for fiscal year 2008, representing a decrease in investment income of $56.2 million from the $37.8 million in net investment income for the 2007 fiscal year due to a significant drag on domestic equities from the downturn in global equity markets.

SPOFF benefit expenses were $11.6 million for the 2008 fiscal year, an increase of $0.8 million (7.4 percent) from the 2007 fiscal year, due primarily to the increase in the number of retired SPOFF participants in 2008.

***Investments***

The SPOFF invests mainly in domestic equity securities. Total SPOFF investments were $348.9 million at June 30, 2008, which was $17.4 million (5.2 percent) more than the $331.5 million in total SPOFF investments at June 30, 2007. Domestic equity securities yielded returns

## Net Assets — Defined Contribution Pension Plan Funds

(Dollars in Thousands)

| | SPOFF | | IRC 457 | | RBF | | SCPF | |
|---|---|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| **Assets** | | | | | | | | |
| Cash, Cash Equivalents & Receivables | $6,296 | $4,221 | $12,031 | $3,246 | $63 | $160 | $66 | $32 |
| Investments | 348,856 | 331,480 | 710,149 | 681,099 | 1,510 | 1,227 | 21,524 | 23,338 |
| **Total Assets** | **$355,152** | **$335,701** | **$722,180** | **$684,345** | **$1,573** | **$1,387** | **$21,590** | **$23,370** |
| **Total Liabilities** | **$445** | **$323** | **$10,229** | **$1,722** | **$1,427** | **$1,076** | **$39** | **$32** |
| **Total Net Assets** | **$354,707** | **$335,378** | **$711,951** | **$682,623** | **$146** | **$311** | **$21,551** | **$23,338** |

## Changes in Net Assets — Defined Contribution Pension Plan Funds

(Dollars in Thousands)

| | SPOFF | | IRC 457 | | RBF | | SCPF | |
|---|---|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| **Additions** | | | | | | | | |
| Member Contributions | $ — | $ — | $125,952 | $104,956 | $ — | $ — | $713 | $457 |
| Employer Contributions | 51,475 | 48,948 | 53 | — | 2,483 | 2,209 | — | — |
| Investment Income (Losses) | (18,363) | 37,813 | (47,015) | 81,484 | 50 | 50 | (1,517) | 3,619 |
| Other Income | — | — | 39 | 14 | — | — | — | 389 |
| **Total Additions** | **$33,112** | **$86,761** | **$79,029** | **$186,454** | **$2,533** | **$2,259** | **($804)** | **$4,465** |
| **Deductions** | | | | | | | | |
| Retirement Benefits | $11,626 | $10,828 | $ — | $ — | $2,698 | $2,057 | $ — | $ — |
| Administrative Expenses | 2,157 | — | 1,759 | 1,316 | — | — | 113 | — |
| Participant Withdrawals | — | — | 47,942 | 42,647 | — | — | 870 | 1,918 |
| **Total Deductions** | **$13,783** | **$10,828** | **$49,701** | **$43,963** | **$2,698** | **$2,057** | **$983** | **$1,918** |
| **Increase (Decrease) in Net Assets** | **$19,329** | **$75,933** | **$29,328** | **$142,491** | **($165)** | **$202** | **($1,787)** | **$2,547** |
| **Net Assets** | | | | | | | | |
| **Beginning of Year** | **$335,378** | **$259,445** | **$682,623** | **$540, 132** | **$311** | **$109** | **$23,338** | **$20,791** |
| **End of Year** | **$354,707** | **$335,378** | **$711,951** | **$682,623** | **$146** | **$311** | **$21,551** | **$23,338** |

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of approximately 6.2 negative percent for fiscal year 2008, compared to 14.0 percent for fiscal year 2007. CalPERS benchmark return for fiscal year 2008 was a negative 4.7 percent. CalPERS uses a composite index to provide a benchmark for domestic equity investment return.

### Public Agency Deferred Compensation Plan (IRC 457)

#### *Plan Net Assets*

The CalPERS Board is trustee for public agency participant assets in the IRC 457 deferred compensation program. Net assets held in trust for pension benefits at June 30, 2008, were $712.0 million, an increase of $29.4 million (4.3 percent), from $682.6 million at June 30, 2007.

Additions to IRC 457 net assets consist of member contributions of $126.0 million in fiscal year 2008, compared to $105.0 million in 2007. The increase is primarily due to an increase in members and members choosing to contribute more. Net investment losses amounted to $47.0 million for fiscal year 2008, representing a decrease in investment income of $127.2 million from the $80.2 million in net investment income for fiscal year 2007.

Deductions from the IRC 457 net assets consist primarily of participant withdrawals of $47.9 million, an increase of $5.3 million from the prior fiscal year of $42.6 million.

#### *Investments*

The IRC 457 investments were $710.1 million at June 30, 2008, which was $29.0 million more than the $681.1 million in total IRC 457 investments at June 30, 2007, due to increased purchases of fixed income securities and unrealized gains in fixed income securities, as well as an increase in members and member contributions. IRC 457 asset allocation is participant directed.

At June 30, 2008, the IRC 457 held $508.3 million in domestic and international equity securities, a decrease of $16.4 million from $524.7 million at fiscal year end 2007.

At June 30, 2008, the IRC 457 held $200.3 million in domestic debt securities, an increase of $48.1 million from $152.2 million at fiscal year end 2007.

At June 30, 2008, the IRC 457 held $1.6 million in short-term investments, a decrease of $2.7 million from $4.3 million at fiscal year end 2007.

### Replacement Benefit Fund (RBF)

The RBF provides replacement retirement benefits to the small percentage of retired PERF members whose CalPERS retirement benefits earned are limited by Internal Revenue Code Section 415(b). Net assets held in trust for pension benefits decreased by $165,000 to $146,000 at June 30, 2008, from $311,000 at June 30, 2007.

Contribution revenues were $2.5 million for the 2008 fiscal year, an increase of $0.3 million from the 2007 fiscal year, primarily due to an increase in the number of retirees to 139 at June 30, 2008, from 117 at June 30, 2007.

## Investments — SCPF

(Dollars in Millions)

| Investment Class | Amount | Allocation | Current Year Return | Prior Year Return | Benchmark Return |
|---|---|---|---|---|---|
| Short-Term Investments | $0.7 | 3.2% | 4.3% | 5.3% | N/A% |
| Domestic Equity | 10.9 | 50.7 | (13.4) | 20.5 | (13.3) |
| International Equity | 3.8 | 17.7 | (8.5) | 28.0 | (8.5) |
| Domestic Debt Securities | 6.1 | 28.4 | 6.9 | 11.3 | 7.8 |
| **Total or Overall Return** | **$21.5** | **100.0%** | **(6.9%)** | **17.5%** | **(6.6%)** |

The RBF paid benefits of $2.7 million for the 2008 fiscal year, an increase of $0.6 million from fiscal year 2007, primarily due to more members being eligible.

***Investments***

The RBF invests only in short-term securities. Total RBF investments were $1.5 million at June 30, 2008, which was $0.3 million more than the $1.2 million in total RBF investments at June 30, 2007. Short-term investments returned approximately 3.1 percent for fiscal year 2008, compared to 5.2 percent for fiscal year 2007.

**Supplemental Contributions Program Fund (SCPF)**

The SCPF was established effective January 1, 2000, to provide supplemental retirement benefits to members of CalPERS and is entirely member funded. Net assets held in trust for pension benefits decreased to $21.6 million at June 30, 2008.

Contribution revenues were $713,000 for the 2008 fiscal year, an increase of 56.0 percent from the 2007 fiscal year, primarily due to an increase in membership. Net investment losses were $1.5 million for fiscal year 2008, representing a decrease in investment income of $5.1 million from $3.6 million in net investment income for fiscal year 2007 due to a significant drag on domestic and international equities from the downturn in global equity markets.

For fiscal year 2008, participant withdrawals were $0.9 million, a decrease of $1.0 million (52.6 percent) from fiscal year 2007.

***Investments***

The SCPF investments were $21.5 million at June 30, 2008, which was $1.8 million less than the $23.3 million in total SCPF investments at June 30, 2007.

At June 30, 2008, the SCPF held $14.7 million in domestic and international equity securities, a decrease of $2.0 million from $16.7 million at fiscal year end 2007. Domestic and international equity securities yielded returns of approximately negative 13.4 percent and negative 8.5 percent for fiscal year 2008, compared to the 20.5 percent and 28.0 percent for fiscal year 2007. CalPERS benchmark returns for fiscal year 2008 were negative 13.3 percent and negative 8.5 percent. CalPERS uses the Custom S&P 500 Index and a Custom Benchmark Index to provide a benchmark for our domestic and international equity investment returns, respectively.

At June 30, 2008, the SCPF held $6.1 million in domestic debt securities, an increase of $0.1 million from $6.0 million at fiscal year end 2007. Domestic debt securities returned approximately 6.9 percent for fiscal year 2008, compared to 11.3 percent for fiscal year 2007. CalPERS benchmark return for fiscal year 2008 was 7.8 percent. CalPERS uses a Custom Benchmark as a benchmark for its domestic debt security investment returns.

At June 30, 2008, the SCPF held $647,000 in short-term investments, an increase of $8,000 from $639,000 at fiscal year end 2007. Short-term investments returned approximately 4.3 percent for fiscal year 2008, which was a decline from the 5.3 percent for fiscal year 2007.

## Enterprise Funds

**Employees' Health Care Fund (HCF)**

***Plan Activity***

The HCF accounts for the activities of the CalPERS self-insured health care programs.

The self-insured health care programs incurred claims expenses of $1.3 billion for the 2008 fiscal year, an increase of 8.3 percent from the 2007 fiscal year, primarily due to increases in provider pricing and increased benefit utilization. Premium revenues were $1.5 billion for the 2008 fiscal year, an increase of 7.1 percent from the 2007 fiscal year, primarily as a result of premium rate increases and enrollment growth. Net investment income was $34.6 million for the 2008 fiscal year, an increase of 72.1 percent from the 2007 fiscal year due to unrealized gains in the fund's government bond investments. As a result of increased assets, unrestricted net assets increased by $150.0 million (33.4 percent) to $598.5 million at June 30, 2008.

***Investments***

Investments of the HCF at June 30, 2008 and 2007, include highly-liquid, short-term securities and domestic debt securities. Investments increased $125.0 million from $577.8 million at June 30, 2007, to $702.8 million at June 30, 2008.

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**Public Employees' Contingency Reserve Fund (CRF)**

The CRF was established to fund administrative costs related to the CalPERS health care programs and to provide a contingency reserve for potential increases in future health care premium rates or health care benefit costs. In the 2008 fiscal year, pursuant to GASB Statement 43, activity in the CRF is reported in two separate fund types.

Administrative fees collected and related costs are accounted for in the CRF proprietary fund type. Administrative fees earned by the CRF were $14.9 million for the 2008 fiscal year, a decrease of 9.6 percent from 2007 fiscal year of $16.5 million. The decrease was due mainly to administrative rate decreases during the 2008 fiscal year. Net investment income was $8.0 million for the 2008 fiscal year, a decrease of 14.0 percent from the 2007 fiscal year. Unrestricted net assets decreased by $1.4 million

## Net Assets — Enterprise Funds

(Dollars in Thousands)

| | HCF | | CRF | | LTCF | | DCF | |
|---|---|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| **Assets** | | | | | | | | |
| Cash, Cash Equivalents & Receivables | $117,974 | $67,420 | $16,210 | $28,118 | $2,502 | $2,226 | $868 | $799 |
| Investments | 702,818 | 577,820 | 119,069 | 109,226 | 2,314,047 | 2,205,350 | 9,447 | 3,958 |
| **Total Assets** | **$820,792** | **$645,240** | **$135,279** | **$137,344** | **$2,316,549** | **$2,207,576** | **$10,315** | **$4,757** |
| **Total Liabilities** | **$222,246** | **$196,660** | **$122,059** | **$122,731** | **$2,451,284** | **$3,049,833** | **$6,056** | **$3,992** |
| **Total Unrestricted Net Assets (Deficit)** | **$598,546** | **$448,580** | **$13,220** | **$14,613** | **($134,735)** | **($842,257)** | **$4,259** | **$765** |

## Changes in Net Assets — Enterprise Funds

(Dollars in Thousands)

| | HCF | | CRF | | LTCF | | DCF | |
|---|---|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| **Revenues** | | | | | | | | |
| Self-Insurance Premiums | $1,509,064 | $1,390,819 | $ — | $ — | $299,489 | $241,495 | $ — | $ — |
| Investment Income (Losses) | 34,579 | 20,069 | 8,037 | 9,279 | (73,039) | 281,068 | 235 | 180 |
| Administrative Fees & Other | — | — | 14,928 | 16,509 | — | — | 3,259 | 595 |
| **Total Revenues** | **$1,543,643** | **$1,410,888** | **$22,965** | **$25,788** | **$226,450** | **$522,563** | **$3,494** | **$775** |
| **Expenses** | | | | | | | | |
| Claims Expenses | $1,299,905 | $1,198,348 | $ — | $ — | $101,349 | $87,324 | $ — | $ — |
| Increase (Decrease) in Estimated Liabilities | 14,626 | 14,358 | — | — | (600,900) | 487,800 | — | — |
| Administrative Expenses | 79,146 | 74,771 | 24,358 | 20,854 | 18,479 | 18,198 | — | 1,486 |
| **Total Expenses** | **$1,393,677** | **$1,287,477** | **$24,358** | **$20,854** | **($481,072)** | **$593,322** | **$ —** | **$1,486** |
| **Increase (Decrease) in Unrestricted Net Assets** | **$149,966** | **$123,411** | **($1,393)** | **$4,934** | **$707,522** | **($70,759)** | **$3,494** | **($711)** |
| **Net Assets (Deficit)** | | | | | | | | |
| **Beginning of Year** | **$448,580** | **$325,169** | **$14,613** | **$9,679** | **($842,257)** | **($771,498)** | **$765** | **$1,476** |
| **End of Year** | **$598,546** | **$448,580** | **$13,220** | **$14,613** | **($134,735)** | **($842,257)** | **$4,259** | **$765** |

(9.6 percent) to $13.2 million at June 30, 2008.

Public agency health payments and remittances to contracted health care providers are reported in the CRF Agency Fund type. Public agencies remitted approximately $1.4 billion for payments to contracted health care providers in fiscal year 2008.

***Investments***

Investments of the CRF proprietary and agency activities at June 30, 2008 and 2007, included only highly-liquid, short-term securities, as investment balances are used to fund operating cash flows. Investments of the CRF proprietary activities increased $9.9 million from $109.2 million at June 30, 2007, to $119.1 million at June 30, 2008, primarily due to the receipt of Medicare Part D funds.

## Public Employees' Long-Term Care Fund (LTCF)

The LTCF, which provides long-term care insurance to participating members, incurred claims expenses of $101.3 million for the 2008 fiscal year, an increase of 16.0 percent from the 2007 fiscal year, due mainly to an increase in benefit utilization. Premium revenues were $299.5 million for the 2008 fiscal year, an increase of 24.0 percent from the 2007 fiscal year. Net investment losses amounted to $73.0 million for the 2008 fiscal year, a decrease in investment income of 126.0 percent from the $281.1 million in net investment income for the 2007 fiscal year, due mainly to poorly performing equity markets in 2008. The unrestricted net deficits of the CalPERS Long-Term Care Program decreased by $707.5 million to negative $134.7 million during the 2008 fiscal year primarily as a result of the impact of the CalPERS Board of Administration approved premium rate increase which became effective July 1, 2007. The Long-Term Care program management are evaluating the results of the rate increase to determine if additional mitigating action is necessary.

***Investments***

Total LTCF investments were $2.3 billion at June 30, 2008, which was $0.1 billion more than the $2.2 billion in total LTCF investments at June 30, 2007.

At June 30, 2008, the LTCF held $1.1 billion in domestic and international equity securities, which is approximately the same amount that was invested in domestic and international equities at fiscal year end 2007. Domestic and international equity securities incurred losses of approximately 13.4 percent and 8.5 percent for the 2008 fiscal year, compared to the positive returns of 20.5 percent and 27.2 percent for fiscal year 2007. CalPERS benchmark returns for fiscal year 2008 were a negative 13.3 percent and a negative 8.6 percent. CalPERS uses the Custom S&P 500 Index and FTSE Developed World ex US & Tobacco Index to provide a benchmark for domestic and international equity investment returns. These benchmarks are representative of the returns that could be expected in a similar investing environment, and reflect the overall market environment.

At June 30, 2008, the LTCF held $1.1 billion in domestic debt securities, an increase of $104.6 million from $995.4 million at fiscal year end 2007. Domestic debt securities returned approximately 7.1 percent, compared to 6.6 percent for fiscal year 2007. CalPERS benchmark return for fiscal year 2008 was 7.8 percent. CalPERS uses the Lehman Long Liability Fund Index to provide a benchmark for our fixed income investment returns. This benchmark is representative of the returns that could be expected in a similar investing environment, and reflects the overall market environment.

## Investments — LTCF

(Dollars in Millions)

| Investment Class | Amount | Allocation | Current Year Return | Prior Year Return | Benchmark Return |
|---|---|---|---|---|---|
| Domestic Equity | $640.8 | 27.7% | (13.4%) | 20.5% | (13.3%) |
| International Equity | 441.3 | 19.1 | (8.5) | 27.2 | (8.6) |
| Domestic Debt Securities | 1,129.4 | 48.8 | 7.1 | 6.6 | 7.8 |
| Real Estate | 102.6 | 4.4 | (14.9) | 11.9 | (15.4) |
| **Total or Overall Return** | **$2,314.1** | **100.0%** | **(3.1%)** | **15.2%** | **(3.2%)** |

At June 30, 2008, the LTCF held $102.6 million in real estate investments, a decrease of $4.6 million from $107.2 million at fiscal year end 2007. Real estate investments returned approximately a negative 14.9 percent, compared to 11.1 percent for fiscal year 2007. CalPERS benchmark return for real estate investments for fiscal year 2008 was a negative 15.4 percent. CalPERS uses the DJ Wilshire RESI Index to provide a benchmark for real estate investment returns. This benchmark is representative of the returns that could be expected in a similar investing environment, and reflects the overall market environment.

### Public Employees' Retirement System Deferred Compensation Fund (DCF)

The purpose of the DCF is to maintain the financial records associated with the investment and administrative management services CalPERS offers to other governments' defined contribution plans. The fund recognizes as revenue fees charged other government clients for these services. Net income is retained in the fund balance to further expand the amount and types of deferred compensation plan management services. Fees are assessed to manage certain investment portfolios of the SPOFF, SCPF, and the IRC 457 public agency program.

The DCF reported administrative and investment management revenues of $3.3 million for the 2008 fiscal year, which is $2.7 million more than the $0.6 million for the 2007 fiscal year. Net income in fiscal year 2008 from investment of the DCF fund balance was $235,000, an increase of 30.6 percent from the 2007 fiscal year, due mainly to more fees earned. Unrestricted net assets increased by $3.5 million (456.7 percent) to $4.3 million at June 30, 2008.

***Investments***

Investments of the DCF at June 30, 2008 and 2007, included only highly-liquid, short-term securities. Investments increased $5.4 million from $4.0 million at June 30, 2007, to $9.4 million at June 30, 2008.

## Currently Known Facts and Events

**Subsequent to the June 30 fiscal year end, the financial markets continued to experience high volatility with an outcome that negatively affected all asset classes. As of October 31, 2008, the Public Employees' Retirement Fund (PERF) investment portfolio, excluding securities lending collateral, had declined by an estimated $50.4 billion in value to $186.7 billion based on net of fees reporting by State Street Bank. The most significant decline was in the domestic and international public equity portfolios. These portfolios declined $40.5 billion or 33.0 percent during this period. The privately held investments, due to their less frequent valuation cycles, experienced smaller declines.**

**CalPERS had exposure to financial institutions that were either acquired by another institution, the U.S. Government, or filed for bankruptcy during this period. CalPERS continually monitors the value of its investments that are involved in these transactions, however, the final value is not certain until the bankruptcy process or acquisition has been completed. After June 30, the more noteworthy equity and debt holdings that declined in value were American International Group (AIG), Fannie Mae, Freddie Mac, Lehman Brothers, and Washington Mutual. CalPERS holdings in these five firms decreased approximately $1.7 billion.**

**In addition, CalPERS Real Estate Program continued to experience declines due to overall market conditions and negative returns in the Housing Program. These declines were driven by a combination of a slowdown in absorption/sales of new homes and value declines resulting from the annual independent appraisal process.**

**The overall risk profile of the PERF has remained unchanged since June 30, 2008, and the volatility of the investment portfolio remains in line with the overall financial markets. The global capital markets are highly dynamic and the value of the PERF changes every day. CalPERS continues to rely on the long-held investment philosophy of diversification and the search for long-term value. Up-to-date investment portfolio information is published monthly as part of the Investment Committee agenda. Please visit www.calpers.ca.gov for more information.**

## Requests For Information

This Financial Report is designed to provide a general overview of CalPERS finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the CalPERS Fiscal Services Division, P.O. Box 942703, Sacramento, CA, 94229-2703, or by calling **888 CalPERS** (or **888**-225-7377).additional financial information should be addressed to the CalPERS Fiscal Services Division, P.O. Box 942703, Sacramento, CA, 94229-2703, or by calling **888 CalPERS** (or **888**-225-7377).

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# Financial **Section**
## Basic Financial Statements

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# Statement of Fiduciary Net Assets — Fiduciary Funds

## As of June 30, 2008 (with Comparative Totals as of June 30, 2007)

(Dollars in Thousands)

| | Pension Trust Funds | | | | |
|---|---|---|---|---|---|
| | PERF | LRF | JRF | JRF II | SPOFF |
| **Assets** | | | | | |
| **Cash & Cash Equivalents** | **$420,354** | **$768** | **$4** | **$13** | **$ —** |
| **Receivables** | | | | | |
| Member, Public Agency, State & School | $1,952,699 | $18 | $2,938 | $4,339 | $4,386 |
| Investment Sales & Other | 1,307,750 | — | — | — | — |
| Interest & Dividends | 258,858 | — | 49 | 413 | 18 |
| Due from Other Funds | 6,683 | 6 | 2 | 50 | 1,892 |
| Other Program | 14,663 | 7 | 102 | 2 | — |
| **Total Receivables** | **$3,540,653** | **$31** | **$3,091** | **$4,804** | **$6,296** |
| **Investments, at Fair Value** | | | | | |
| Short-Term Investments: | | | | | |
| Domestic | $3,956,303 | $6 | $17,137 | $12,890 | $571 |
| International | 373,588 | — | — | — | — |
| Securities Lending Collateral | 35,177,731 | — | — | — | — |
| Equity Securities: | | | | | |
| Domestic | 73,877,437 | 38,317 | — | 100,976 | 348,285 |
| International | 48,498,167 | 12,914 | — | 61,516 | — |
| Debt Securities: | | | | | |
| Domestic | 55,740,457 | 82,792 | — | 117,856 | — |
| International | 4,194,476 | — | — | — | — |
| Inflation Linked | 4,659,829 | — | — | — | — |
| Real Estate Equities: | 40,959,197 | — | — | 27,836 | — |
| Debt on Real Estate Equities | (19,140,765) | — | — | — | — |
| Alternative Investments | 24,010,776 | — | — | — | — |
| **Total Investments** | **$272,307,196** | **$134,029** | **$17,137** | **$321,074** | **$348,856** |
| **Capital Assets, at Cost, Net of Accumulated Depreciation & Other Assets** | **$389,962** | **$ —** | **$ —** | **$ —** | **$ —** |
| **Total Assets** | **$276,658,165** | **$134,828** | **$20,232** | **$325,891** | **$355,152** |
| **Liabilities** | | | | | |
| Retirement & Other Benefits in Process of Payment | $957,846 | $633 | $174 | $53 | $ — |
| Due to Health Carriers | — | — | — | — | — |
| Investment Purchases & Other | 1,871,516 | — | — | — | — |
| Due to State and Public Agencies | 2,279 | — | — | — | — |
| Securities Lending Obligation | 35,177,731 | — | — | — | — |
| Due to Other Funds | 4,620 | 33 | 108 | 216 | — |
| Other Program | 728,694 | 43 | 704 | 200 | 445 |
| **Total Liabilities** | **$38,742,686** | **$709** | **$986** | **$469** | **$445** |
| **Net Assets Held in Trust for Pension & Post-Employment Health Care Benefits (see Required Supplemental Schedules of Funding Progress)** | **$237,915,479** | **$134,119** | **$19,246** | **$325,422** | **$354,707** |

The accompanying notes are an integral part of these financial statements.

# Statement of Fiduciary Net Assets — Fiduciary Funds (continued)

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## As of June 30, 2008 (with Comparative Totals as of June 30, 2007)

(Dollars in Thousands)

| Pension Trust Funds | | | Post-Employment Health Care Trust Fund | Agency Funds | | Totals | |
|---|---|---|---|---|---|---|---|
| IRC 457 | RBF | SCPF | CERBTF | CRF | OASI | 2008 | 2007 |
| **$45** | **$ —** | **$1** | **$ —** | **$ —** | **$5,773** | **$426,958** | **$331,231** |
| $ — | $48 | $35 | $1,218 | $147,847 | $ — | $2,113,528 | $1,807,931 |
| 9,025 | — | — | — | — | — | 1,316,775 | 3,103,826 |
| 612 | 15 | 6 | 678 | — | — | 260,649 | 709,932 |
| — | — | — | — | — | — | 8,633 | 9,579 |
| 2,349 | — | 24 | — | — | — | 17,147 | 12,584 |
| **$11,986** | **$63** | **$65** | **$1,896** | **$147,847** | **$ —** | **$3,716,732** | **$5,643,852** |
| $1,564 | $1,510 | $647 | $202,537 | $198,567 | $ — | $4,391,732 | $3,301,606 |
| — | — | — | — | — | — | 373,588 | 466,201 |
| — | — | — | — | — | — | 35,177,731 | 46,337,538 |
| 469,129 | — | 10,918 | 150,544 | — | — | 74,995,606 | 101,546,279 |
| 39,160 | — | 3,818 | 129,770 | — | — | 48,745,345 | 49,231,188 |
| 200,296 | — | 6,141 | 115,923 | — | — | 56,263,465 | 55,879,798 |
| — | — | — | — | — | — | 4,194,476 | 5,674,194 |
| — | — | — | — | — | — | 4,659,829 | — |
| — | — | — | 48,079 | — | — | 41,035,112 | 37,038,898 |
| — | — | — | — | — | — | (19,140,765) | (16,939,148) |
| — | — | — | — | — | — | 24,010,776 | 16,821,589 |
| **$710,149** | **$1,510** | **$21,524** | **$646,853** | **$198,567** | **$ —** | **$274,706,895** | **$299,358,143** |
| **$ —** | **$ —** | **$ —** | **$ —** | **$ —** | **$ —** | **$389,962** | **$397,813** |
| **$722,180** | **$1,573** | **$21,590** | **$648,749** | **$346,414** | **$5,773** | **$279,240,547** | **$305,731,039** |
| $ — | $ — | $ — | $ — | $ — | $ — | $958,706 | $211,160 |
| — | — | — | — | 292,394 | — | 292,394 | 224,916 |
| 9,106 | — | — | 4,999 | — | — | 1,885,621 | 5,716,588 |
| — | — | — | — | — | 5,724 | 8,003 | 7,578 |
| — | — | — | — | — | — | 35,177,731 | 46,337,538 |
| — | — | — | 111 | 54,020 | 49 | 59,157 | 354 |
| 1,123 | 1,427 | 39 | — | — | — | 732,675 | 608,523 |
| **$10,229** | **$1,427** | **$39** | **$5,110** | **$346,414** | **$5,773** | **$39,114,287** | **$53,106,657** |
| **$711,951** | **$146** | **$21,551** | **$643,639** | **$ —** | **$ —** | **$240,126,260** | **$252,624,382** |

The accompanying notes are an integral part of these financial statements.

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# Statement of Changes in Fiduciary Net Assets — Fiduciary Funds

## For the Year Ended June 30, 2008 (with Comparative Totals for the Year Ended June 30, 2007)

(Dollars in Thousands)

| | Pension Trust Funds | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | PERF | LRF | JRF | JRF II | VFF | SPOFF | IRC 457 | RBF | SCPF |
| **Additions** | | | | | | | | | |
| **Retirement Contributions** | | | | | | | | | |
| Members | $3,512,075 | $14 | $9,569 | $13,808 | $ — | $ — | $125,952 | $ — | $713 |
| Employers | 7,242,802 | — | 12,894 | 36,761 | — | 51,475 | 53 | 2,483 | — |
| State of California General Fund | — | — | 150,312 | — | — | — | — | — | — |
| Employer Contributions - OPEB | — | — | — | — | — | — | — | — | — |
| **Total Retirement and OPEB Contributions** | **$10,754,877** | **$14** | **$172,775** | **$50,569** | **$ —** | **$51,475** | **$126,005** | **$2,483** | **$713** |
| **Investment (Loss) Income** | | | | | | | | | |
| Net (Depreciation) Appreciation in Fair Value of Investments | ($14,387,399) | $214 | $ — | ($15,029) | ($208) | ($18,477) | ($52,291) | $ — | ($1,554) |
| Interest | 880,602 | 9 | 384 | 1,665 | 2 | 114 | 5,990 | 50 | 37 |
| Dividends | 2,171,152 | — | — | 1,180 | 79 | — | 2,349 | — | 1 |
| Real Estate | 1,459,428 | — | — | — | — | — | — | — | — |
| Alternative Investments | 227,495 | — | — | — | — | — | — | — | — |
| Other Income (Loss) | 155,592 | — | — | — | — | — | (1,126) | — | — |
| Securities Lending Income | 1,584,917 | — | — | — | — | — | — | — | — |
| Less Investment Expenses: | | | | | | | | | |
| Costs of Lending | (1,743,444) | — | — | — | — | — | — | — | — |
| Real Estate | (2,208,229) | — | — | — | — | — | — | — | — |
| Other | (639,224) | — | — | — | — | — | (1,937) | — | (1) |
| **Net Investment (Loss) Income** | **($12,499,110)** | **$223** | **$384** | **($12,184)** | **($127)** | **($18,363)** | **($47,015)** | **$50** | **($1,517)** |
| **Other Income** | **$6,202** | **$ —** | **$3,827** | **$ —** | **$ —** | **$ —** | **$39** | **$ —** | **$ —** |
| **Total Additions** | **($1,738,031)** | **$237** | **$176,986** | **$38,385** | **($127)** | **$33,112** | **$79,029** | **$2,533** | **($804)** |
| **Deductions** | | | | | | | | | |
| Retirement, Death & Survivor Benefits | $10,884,417 | $7,621 | $168,304 | $964 | $98 | $11,626 | $ — | $2,698 | $ — |
| Refund of Contributions | 182,415 | 309 | 136 | 2,134 | — | — | — | — | — |
| Administrative Expenses | 402,340 | 397 | 973 | 597 | 101 | 2,157 | 1,759 | — | 113 |
| Participant Withdrawals | — | — | — | — | — | — | 47,942 | — | 870 |
| Other Expenses | — | — | — | — | — | — | — | — | — |
| Transfer Out | — | — | — | — | 3,601 | — | — | — | — |
| **Total Deductions** | **$11,469,172** | **$8,327** | **$169,413** | **$3,695** | **$3,800** | **$13,783** | **$49,701** | **$2,698** | **$983** |
| **(Decrease) Increase in Net Assets** | **($13,207,203)** | **($8,090)** | **$7,573** | **$34,690** | **($3,927)** | **$19,329** | **$29,328** | **($165)** | **($1,787)** |
| **Net Assets Held in Trust for Pension and Post-Employment Health Care Benefits Beginning of Year as Previously Reported** | **$251,122,682** | **$142,209** | **$11,673** | **$290,732** | **$3,996** | **$335,378** | **$682,623** | **$311** | **$23,338** |
| **Prior Period Adjustment** | **—** | **—** | **—** | **—** | **(69)** | **—** | **—** | **—** | **—** |
| **Net Assets as Restated** | **$251,122,682** | **$142,209** | **$11,673** | **$290,732** | **$3,927** | **$335,378** | **$682,623** | **$311** | **$23,338** |
| **End of Year** | **$237,915,479** | **$134,119** | **$19,246** | **$325,422** | **$ —** | **$354,707** | **$711,951** | **$146** | **$21,551** |

The accompanying notes are an integral part of these financial statements.

# Statement of Changes in Fiduciary Net Assets — Fiduciary Funds (continued)

## For the Year Ended June 30, 2008 (with Comparative Totals for the Year Ended June 30, 2007)

(Dollars in Thousands)

| Post-Employment Healthcare Trust Fund | Totals | |
|---|---|---|
| CERBTF | 2008 | 2007 |
| $ — | $3,662,131 | $3,390,333 |
| — | 7,346,468 | 6,531,845 |
| — | 150,312 | 120,458 |
| 655,030 | 655,030 | 11,469 |
| **$655,030** | **$11,813,941** | **$10,054,105** |
| ($22,445) | ($14,497,189) | $35,849,399 |
| 568 | 889,421 | 2,231,143 |
| 882 | 2,175,643 | 2,249,060 |
| — | 1,459,428 | 2,265,695 |
| — | 227,495 | 231,302 |
| (3) | 154,463 | 399,246 |
| — | 1,584,917 | 2,336,567 |
| — | (1,743,444) | (2,181,828) |
| — | (2,208,229) | (1,698,048) |
| — | (641,162) | (755,615) |
| **($20,998)** | **($12,598,657)** | **$40,926,921** |
| **$ —** | **$10,068** | **$12,113** |
| **$634,032** | **($774,648)** | **$50,993,139** |
| $ — | $11,075,728 | $10,243,290 |
| — | 184,994 | 182,647 |
| 131 | 408,568 | 283,471 |
| — | 48,812 | 44,565 |
| 1,702 | 1,702 | — |
| — | 3,601 | — |
| **$1,833** | **$11,723,405** | **$10,753,973** |
| **$632,199** | **($12,498,053)** | **$40,239,166** |
| **$11,440** | **$252,624,382** | **$212,385,216** |
| **—** | **(69)** | **—** |
| **$11,440** | **$252,624,313** | **$212,385,216** |
| **$643,639** | **$240,126,260** | **$252,624,382** |

The accompanying notes are an integral part of these financial statements.

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# Statement of Net Assets — Proprietary Funds

## As of June 30, 2008 (with Comparative Totals as of June 30, 2007)

(Dollars in Thousands)

| | Enterprise Funds | | | | Totals | |
|---|---|---|---|---|---|---|
| | HCF | CRF | LTCF | DCF | 2008 | 2007 |
| **Assets** | | | | | | |
| **Current Assets** | | | | | | |
| Cash & Cash Equivalents | **$16** | **$119** | **$682** | **$ —** | **$817** | **$15,752** |
| **Receivables** | | | | | | |
| Member, Public Agency, State & School | $58,528 | $755 | $465 | $ — | $59,748 | $15,921 |
| Interest & Dividends | 2,820 | 1,814 | 1,355 | 14 | 6,003 | 5,838 |
| Management Fees | — | — | — | 854 | 854 | 783 |
| Due from Other Funds | 56,609 | 1,972 | — | — | 58,581 | 49,459 |
| Due from Federal Government | — | 11,043 | — | — | 11,043 | 10,811 |
| Other | 1 | 507 | — | — | 508 | — |
| **Total Receivables** | **$117,958** | **$16,091** | **$1,820** | **$868** | **$136,737** | **$82,812** |
| **Investments, at Fair Value** | | | | | | |
| Short-Term Investments: | | | | | | |
| Domestic | $328,340 | $119,069 | $61 | $9,447 | $456,917 | $339,784 |
| Equity Securities: | | | | | | |
| Domestic | — | — | 640,769 | — | 640,769 | 653,385 |
| International | — | — | 441,296 | — | 441,296 | 448,009 |
| Debt Securities: | | | | | | |
| Domestic | 374,478 | — | 1,129,366 | — | 1,503,844 | 1,347,999 |
| Real Estate Equities | — | — | 102,555 | — | 102,555 | 107,177 |
| **Total Investments** | **$702,818** | **$119,069** | **$2,314,047** | **$9,447** | **$3,145,381** | **$2,896,354** |
| **Total Assets** | **$820,792** | **$135,279** | **$2,316,549** | **$10,315** | **$3,282,935** | **$2,994,918** |
| **Liabilities** | | | | | | |
| **Current Liabilities** | | | | | | |
| Insurance Premiums & Claims in Process of Payment | $11,904 | $17 | $7,777 | $ — | $19,698 | $21,230 |
| Estimated Insurance Claims Due | 188,048 | — | 131,261 | — | 319,309 | 288,307 |
| Management Fees | — | — | — | 1,791 | 1,791 | 2,507 |
| Due to Other Funds | 1,328 | 2,168 | 880 | 3,681 | 8,057 | 58,684 |
| Due to State & Public Agencies | 2 | 76,946 | — | — | 76,948 | 727 |
| Other | 20,964 | 42,928 | 12,627 | 584 | 77,103 | 85,747 |
| **Total Current Liabilities** | **$222,246** | **$122,059** | **$152,545** | **$6,056** | **$502,906** | **$457,202** |
| **Long-Term Liabilities** | | | | | | |
| Estimated Liability for Future Policy Benefits | $ — | $ — | $2,298,739 | $ — | $2,298,739 | $2,916,015 |
| **Total Long-Term Liabilities** | **$ —** | **$ —** | **$2,298,739** | **$ —** | **$2,298,739** | **$2,916,015** |
| **Total Liabilities** | **$222,246** | **$122,059** | **$2,451,284** | **$6,056** | **$2,801,645** | **$3,373,217** |
| **Total Unrestricted Net Assets (Deficit)** | **$598,546** | **$13,220** | **($134,735)** | **$4,259** | **$481,290** | **($378,299)** |

The accompanying notes are an integral part of these financial statements.

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# Statement of Revenues, Expenses & Changes in Fund Net Assets — Proprietary Funds

## For the Year Ended June 30, 2008 (with Comparative Totals for the Year Ended June 30, 2007)

(Dollars in Thousands)

| | Enterprise Funds | | | | Totals | |
|---|---|---|---|---|---|---|
| | HCF | CRF | LTCF | DCF | 2008 | 2007 |
| **Operating Revenues** | | | | | | |
| Self-Insurance Premiums | $1,509,064 | $ — | $299,489 | $ — | $1,808,553 | $1,632,314 |
| Administrative Fees Earned | — | 14,928 | — | — | 14,928 | 16,434 |
| Investment Management Fees Earned | — | — | — | 3,259 | 3,259 | 308 |
| Other | — | — | — | — | — | 362 |
| **Total Operating Revenues** | **$1,509,064** | **$14,928** | **$299,489** | **$3,259** | **$1,826,740** | **$1,649,418** |
| **Operating Expenses** | | | | | | |
| Claims Expenses | $1,299,905 | $ — | $101,349 | $ — | $1,401,254 | $1,285,672 |
| Increase (Decrease) in Estimated Liabilities | 14,626 | — | (600,900) | — | (586,274) | 502,158 |
| Administrative Expenses | 79,146 | 24,358 | 18,479 | — | 121,983 | 115,309 |
| **Total Operating Expenses** | **$1,393,677** | **$24,358** | **($481,072)** | **$ —** | **$936,963** | **$1,903,139** |
| **Operating Income (Loss)** | **$115,387** | **($9,430)** | **$780,561** | **$3,259** | **$889,777** | **($253,721)** |
| **Non-Operating Revenues (Losses)** | | | | | | |
| Net Appreciation (Depreciation) in Fair Value of Investments | $21,879 | $ — | ($78,717) | $ — | ($56,838) | $275,284 |
| Interest, Dividends & Other Investment Income | 12,700 | 8,037 | 5,678 | 235 | 26,650 | 35,312 |
| **Total Non-Operating Revenues (Losses)** | **$34,579** | **$8,037** | **($73,039)** | **$235** | **($30,188)** | **$310,596** |
| **Change in Unrestricted Net Assets** | **$149,966** | **($1,393)** | **$707,522** | **$3,494** | **$859,589** | **$56,875** |
| **Total Unrestricted Net Assets (Deficit)** | | | | | | |
| Beginning of Year | $448,580 | $14,613 | ($842,257) | $765 | ($378,299) | ($435,174) |
| End of Year | $598,546 | $13,220 | ($134,735) | $4,259 | $481,290 | ($378,299) |

The accompanying notes are an integral part of these financial statements.

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# Statement of Cash Flows — Proprietary Funds

## For the Year Ended June 30, 2008 (with Comparative Totals for the Year Ended June 30, 2007)

(Dollars in Thousands)

| | Enterprise Funds | | | | Totals | |
|---|---|---|---|---|---|---|
| | HCF | CRF | LTCF | DCF | 2008 | 2007 |
| **Cash Flows From Operating Activities** | | | | | | |
| Self-Insurance Premiums Collected | $1,464,809 | $ — | $299,605 | $ — | $1,764,414 | $1,616,407 |
| Claims Paid | (1,302,021) | — | (100,765) | — | (1,402,786) | (1,271,720) |
| Other (Payments) Receipts | (72,428) | (13,297) | (16,713) | 5,252 | (97,186) | (35,841) |
| **Net Cash Provided by (Used for) Operating Activities** | **$90,360** | **($13,297)** | **$182,127** | **$5,252** | **$264,442** | **$308,846** |
| **Cash Flows From Investing Activities** | | | | | | |
| Net Purchases of Investments | ($1) | $ — | ($188,731) | $ — | ($188,732) | ($459,684) |
| Net Change in Short-Term Investments | (103,118) | (9,843) | 1,317 | (5,489) | (117,133) | 125,032 |
| Interest & Dividends Received | 12,745 | 9,172 | 4,334 | 237 | 26,488 | 35,479 |
| **Net Cash Used by Investing Activities** | **($90,374)** | **($671)** | **($183,080)** | **($5,252)** | **($279,377)** | **($299,173)** |
| **Net Increase (Decrease) in Cash & Cash Equivalents** | **($14)** | **($13,968)** | **($953)** | **$ —** | **($14,935)** | **$9,673** |
| Cash & Cash Equivalents, Beginning of Year | $30 | $14,087 | $1,635 | $ — | $15,752 | $6,079 |
| Cash & Cash Equivalents, End of Year | $16 | $119 | $682 | $ — | $817 | $15,752 |
| **Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities** | | | | | | |
| Operating Income (Loss) | $115,387 | ($9,430) | $780,561 | $3,259 | $889,777 | ($253,721) |
| Changes in Assets & Liabilities: | | | | | | |
| Receivables: | | | | | | |
| Member, Public Agency, State & School | (44,255) | (484) | 116 | — | (44,623) | 7,183 |
| Due from Other Funds | (7,150) | (1,972) | — | — | (9,122) | (5,792) |
| Due from Federal Government | — | (232) | — | — | (232) | (10,811) |
| Other | 795 | (507) | — | (71) | 217 | (258) |
| Insurance Premiums & Claims in Process of Payment | (2,116) | (1) | 584 | — | (1,533) | 4,744 |
| Estimated Insurance Claims Due to Health Care Providers | 14,626 | — | — | — | 14,626 | 14,359 |
| Liability for Future Policy Benefits | — | — | (600,900) | — | (600,900) | 487,800 |
| Due to Other Funds | (3,825) | 26,899 | 322 | 2,196 | 25,592 | 12,666 |
| Other | 16,898 | (27,570) | 1,444 | (132) | (9,360) | 52,676 |
| **Net Cash Provided by (Used for) Operating Activities** | **$90,360** | **($13,297)** | **$182,127** | **$5,252** | **$264,442** | **$308,846** |
| **Noncash Investing, Capital & Financing Activities** | | | | | | |
| Noncash Change in Fair Value of Investments in Securities | $21,879 | $ — | ($137,587) | $ — | ($115,708) | $157,008 |

The accompanying notes are an integral part of these financial statements.

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## 1. General Description of the Plan

**General**

The State Employees' Retirement System, the predecessor to the Public Employees' Retirement System of the State of California (CalPERS), or the "System," was created after voters approved a constitutional amendment authorizing legislation to establish a pension system for State employees. Such legislation became effective January 1, 1932. CalPERS has expanded to include, among others, employees of local agencies which elect to participate in the System. At June 30, 2008, the Board of Administration (Board) of CalPERS administers a total of 14 funds, including four defined benefit retirement plans: the Public Employees' Retirement Fund (PERF), the Legislators' Retirement Fund (LRF), the Judges' Retirement Fund (JRF), and the Judges' Retirement Fund II (JRF II); four defined contribution retirement plans: the State Peace Officers' and Firefighters' Defined Contribution Plan Fund (SPOFF), the Public Agency Deferred Compensation Program (IRC 457), the Replacement Benefit Fund (RBF), and the Supplemental Contributions Program Fund (SCPF); one defined benefit post-employment health care plan, the California Employers' Retirement Benefit Trust Fund (CERBTF); one health care plan: the Public Employees' Health Care Fund (HCF); and five other plans: the Public Employees' Long-Term Care Fund (LTCF), the Public Employees' Deferred Compensation Fund (DCF), the Old Age & Survivors' Insurance Revolving Fund (OASI), the Public Employees' Contingency Reserve Proprietary Fund (CRF), and the Public Employees' Contingency Reserve Agency Fund (CRF).

**Reporting Entity**

The basic financial statements of CalPERS include fund financial statements reporting the financial activities of all of the above funds and assets under trust. The CalPERS Board of Administration has plenary authority and fiduciary responsibility for the investment of monies and the administration of the System pursuant to the State Constitution, Article XVI, Section 17. CalPERS is a unit of the State of California State and Consumer Services Agency; however, CalPERS is not subject to administrative direction by any department, commission, board, bureau, or agency of the State. As such, CalPERS is classified as a component unit of the State of California for financial reporting purposes, in accordance with the provisions of Governmental Accounting Standards Board Statement No. 39.

CalPERS financial statements are included in fiduciary and proprietary funds in the State of California Comprehensive Annual Financial Report.

**Defined Benefit Pension Plans**

The PERF was established in 1932, the LRF in 1947, the JRF in 1937, and JRF II in 1994. The PERF, LRF, JRF, and JRF II are defined benefit pension plans which provide benefits based on members' years of service, age, final compensation, and benefit formula. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries.

At June 30, 2008, the State of California and 1,572 public agencies and schools (representing more than 2,600 entities) contribute to the PERF, JRF, and JRF II, which are agent multiple employer and cost-sharing defined benefit pension plans. CalPERS acts as the common investment and administrative agent for the member agencies, including schools (for classified employees). The LRF is a single-employer defined benefit pension plan for the State of California.

Members of the PERF, LRF, JRF, and JRF II become fully vested in their retirement benefits earned to date after five years (10 years for State Second Tier members) of credited service.

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As of June 30, 2008, the number of affiliated employers for the PERF, LRF, JRF, and JRF II are as follows:

| | 2008 |
|---|---|
| **Public Employees' Retirement Fund** | |
| State | 1 |
| School | 61 |
| Public Agency | 1,511 |
| **Total Employers — Public Employees' Retirement Fund** | **1,573** |
| **Legislators' Retirement Fund** | **1** |
| **Judges' Retirement Fund** | **59** |
| **Judges' Retirement Fund II** | **59** |

As of June 30, 2008, benefit recipients and members in the PERF, LRF, JRF, and JRF II consisted of the following:

| | 2008 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | PERF | | | | | | | |
| | State | School | Public Agency | Total PERF | LRF | JRF | JRF II | Total |
| Retirees | 145,791 | 137,154 | 125,081 | 408,026 | 140 | 1,141 | 11 | 409,318 |
| Survivors & Beneficiaries | 24,700 | 19,418 | 16,754 | 60,872 | 122 | 594 | 3 | 61,591 |
| Members | | | | | | | | |
| Active | 256,380 | 314,689 | 265,845 | 836,914 | 14 | 611 | 979 | 838,518 |
| Inactive | 84,734 | 111,997 | 92,488 | 289,219 | 26 | 71 | — | 289,315 |
| **Total** | **511,605** | **583,258** | **500,168** | **1,595,031** | **302** | **2,417** | **993** | **1,598,743** |

The membership consists of the following categories:

**PERF**

- ***Safety*** — includes California Highway Patrol, peace officers, firefighters, and other employees whose principal duties are in active law enforcement or fire prevention and suppression work, or who occupy positions designated by law as safety member positions.
- ***Schools*** — includes non-teaching, non-certificated school employees.
- ***State Industrial*** — includes all employees of the Department of Corrections and the California Youth Authority who are not safety members.
- ***General*** — includes all other members, defined by statute as "miscellaneous" members.

**LRF**

- State Legislators
- Constitutional Officers
- Legislative Statutory Officers

**JRF**

- ***Judges*** — includes Supreme Court, Courts of Appeal, and Superior Courts appointed or elected before November 9, 1994.

**JRF II**

- ***Judges*** — includes Supreme Court, Courts of Appeal and Superior Courts appointed or elected on or after November 9, 1994.

**Financing**

The benefits for the PERF, LRF, JRF, and JRF II are funded by contributions from members and employers, and earnings from investments. Member and employer contributions for the PERF, LRF, JRF, and JRF II are a percentage of applicable member compensation. Member contribution rates for the PERF, LRF, JRF, and JRF II are defined by law and depend on the respective employer's benefit formulas. Employer contribution rates are determined by periodic actuarial valuations or by State statute. Actuarial valuations are based on the benefit formulas and employee groups of each employer. Employer contributions, including lump sum contributions made when agencies first join the Public Employees' Retirement Fund, are credited with a market value adjustment in determining contribution rates.

The required contribution rates of active plan members are based on a percentage of salary in excess of a base compensation amount ranging from $133 to $863 monthly. For the fiscal year ended June 30, 2008, the required contribution rates for active plan members are as follows:

| | |
|---|---|
| **PERF** | |
| State Employees: | |
| Miscellaneous & Industrial | 5% or 6% |
| Miscellaneous & Industrial | |
| — Second Tier | 0% |
| Safety 6% | |
| Peace Officers & Firefighters | 8% |
| California Highway Patrol | 8% |
| Classified School Employees | 7% |
| Public Agency Employees | 5% to 9% |
| **LRF** | 0% |
| **JRF** | 8% |
| **JRF II** | 8% |

These contributions are deposited in a fund established for each entity for the purpose of creating actuarial reserves for future benefits.

All employees in a covered class of employment who work on a half-time basis or more are eligible to participate in the retirement plans. CalPERS administers several different retirement plans, each providing a monthly allowance based on age, years of credited service, the benefit formula, and highest average compensation over an established period of one year to three years. All plans provide death and disability benefits. Within the PERF, the benefit provisions for the State and school employees are established by statute. The benefits for the public agencies are established by contract with the System, in accordance with the provisions of the Public Employees' Retirement Law. The benefits for the LRF are established in accordance with the provisions of the Legislators' Retirement Law. The benefits for the JRF are established in accordance with the provisions of the Judges' Retirement Law. The benefits for the JRF II are established in accordance with the provisions of the Judges' Retirement System II Law.

In November 1990, Article IV, Section 4.5 was added to the State Constitution by adopting Proposition 140. This section effectively prohibited future Legislators from earning State retirement benefits for service in the Legislature on or after November 7, 1990, though it recognized vested pension benefits that had accrued before that date.

Due to the effects of Proposition 140, there are no current legislators eligible to participate in the Legislators' Retirement Fund. The only active members in the fund are Constitutional Officers (including the Insurance Commissioner and members of the Board of Equalization) and Legislative Statutory Officers.

Costs of administering the funds are financed through contributions and investment earnings of the funds.

**Termination**

Upon separation from the retirement plans, accumulated member contributions are refundable, with interest credited through the date of refund, as required by applicable laws. Withdrawal of such accumulated contributions results in forfeiture of the related vested benefits.

In the event that public agencies elect to terminate their contracts with the retirement plans, accumulated member and employer contributions, interest, and the related liability for benefits may be transferred to the employers. If amounts are not transferred to the employer, sufficient assets required to cover the related liability for benefits are retained in the retirement plans. Excess assets above those required, if any, are returned to the employer, while the employer is billed for any deficiency in assets.

### CERBTF

The California Employers' Retiree Benefit Trust Fund (CERBTF) was established by Chapter 331 of the 1988 Statutes and initially funded in 2007. At June 30, 2008, 72 employers had elected to participate in the fund. The purpose of the fund is to receive contributions from participating employers and establish separate employer prefunding accounts to pay for health care or other post- employment benefits in accordance with the terms of participating employer's plans. Contributions are voluntarily determined by the employer's own funding schedule, and there are no long-term contracts for contributions to the plan. The CERBTF is an agent multiple-employer plan as defined in Governmental Accounting Standards Board (GASB) Statement No. 43 with pooled administrative and investment functions.

Participating employers may receive disbursements from the fund not to exceed the annual premium and other costs of eligible post-employment benefits. If the employer's participation in the fund terminates, all assets in the employer's prefunding account shall remain in the fund except as otherwise provided. Allowable termination disbursements are to a trustee or as a trustee transfer of assets upon satisfactorily showing to the Board the transfer will satisfy applicable requirements of the Internal Revenue Code and the Board's fiduciary duties, or the employer substantiates to the Board that all of the employer's obligations for the payment of post-employment benefits has been satisfied. At June 30, 2008, there were 70,566 active and 29,133 retired miscellaneous and 6,003 active and 3,714 retired safety participants.

Costs to administer the plan are determined through the CalPERS Board-approved cost-allocation plan, where actual direct and indirect costs of administering the System are equitably assessed to each fund.

**Defined Contribution Plans**

### SPOFF

The State Peace Officers' and Firefighters' Defined Contribution Plan Fund (SPOFF) is a defined contribution pension plan established by Chapter 820 of the 1998 Statutes. The plan is a qualified money purchase pension plan under Section 401(a) of Title 26 of the Internal Revenue Code, and is intended to supplement the retirement benefits provided by the PERF to eligible correctional officers employed by the State of California.

Contributions to the plan are funded entirely by the employer, with a contribution rate of 2 percent of the employee's base pay, not to exceed contribution limits established by the Internal Revenue Code. Contribution requirements are established and may be amended through a Memorandum of Understanding from the State of California Department of Personnel Administration. These contributions, as well as the participant's share of the net earnings of the fund, are credited to the participant's account.

The net earnings of the fund are allocated to the participant's account as of each valuation date, in the ratio that the participant's account balance bears to the aggregate of all participants' account balances. The benefit paid to participants will depend only on the amount contributed to participant's account and earnings on the value of the participant's account. Plan provisions are established and may be amended by statute. At June 30, 2008, there were 40,470 participants.

**IRC 457**

Government Code Section 21670 authorizes the Board of Administration to establish a deferred compensation plan qualified under Section 457 of Title 26 of the United States Code for California public employees.

The Public Agency Deferred Compensation Program (IRC 457) is an Internal Revenue Code Section 457(g) defined contribution plan administered by State Street Bank & Trust Company (acting as an agent of CalPERS) to provide benefits at retirement to public agency employees. Plan participation is voluntary to employees of participating public agencies, and contributions are separate from the defined benefit contributions made to CalPERS.

Members may contribute up to the limits established under the Internal Revenue Code. At June 30, 2008, there were 26,516 participants with account balances.

Members of the plan are allowed to change their contribution amount, transfer account balances among 18 investment options, or change the contribution percentages designated to each option on a daily basis. The 18 investment options are: SSGA Target Retirement Income Fund, SSGA Target Retirement 2010 Fund, SSGA Target Retirement 2020 Fund, SSGA Target Retirement 2030 Fund, SSGA Target Retirement 2040 Fund, SSGA Conservative Asset Allocation Fund, SSGA Moderate Asset Allocation Fund, SSGA Aggressive Asset Allocation Fund, SSGA Stable Fixed Income Fund, CalPERS Treasury Inflation Protected Securities Fund, CalPERS Total Return Bond Fund, CalPERS S&P 500 Equity Index Fund, Alliance Bernstein Active Large Cap Equity Value Fund, Turner Active Large Cap Equity Growth Fund, CalPERS Small & Mid Cap Equity Index Fund, CalPERS International Index Fund, SSGA Select Active International Fund, and a Self Manage Account (SMA). Members may access their funds upon retirement, separation from employment, or other distributions as allowed under the Internal Revenue Code. The CalPERS Board of Administration has authorization under the Government Code of the State of California to establish plan provisions.

**RBF**

The Replacement Benefit Fund (RBF) was established by Chapter 938 of the 1995 Statutes and initially funded in 1998 to provide benefits to members of the PERF whose retirement benefit exceeds Internal Revenue Code Section 415(b) limits. IRC Section 415(b) imposes a dollar limit on the annual retirement benefits an individual may receive from a qualified defined benefit pension plan.

The RBF is funded on a "pay-as-you-go" basis. That is, money collected from an employer during any calendar year must be paid to the retiree during that same year. Employer contributions must be in amounts "equivalent to" the benefits not paid as a result of the limitations of IRC Section 415(b). CalPERS calculates the member's retirement allowance based on the member's choice of retirement option. CalPERS also is responsible for calculating the applicable dollar limit under IRC Section 415(b), and setting the employer rates. At June 30, 2008, there were 139 retirees in the RBF.

**SCPF**

The Supplemental Contributions Program Fund (the program) was established January 1, 2000, by Chapter 307 of the 1999 Statutes, as a separate trust fund for the Supplemental Contributions Program, a defined contribution plan that provides supplemental benefits at retirement to members of CalPERS. The program is a qualified plan under Section 401(a) of Title 26 of the United States Code, administered by CalPERS.

Currently, the program is available only to State of California employees who are members of CalPERS. The program is entirely member funded, and participation is voluntary. Participant contributions are made on an after-tax basis and are separate from the defined benefit contributions made to CalPERS. Participants may be able to contribute to a deferred compensation or 401(k) plan in conjunction with the program, if the participant remains within the Internal Revenue Code Section 415(c) limits. Distributions are allowed only at retirement or permanent separation from employment. The CalPERS Board of Administration has authorization under the Government Code of the State of California to establish plan provisions. At June 30, 2008, there were 732 participants in the program.

**Other Funds Administered by CalPERS**

**OASI**

The Old Age & Survivors' Insurance Revolving Fund (OASI) was established to consolidate the collection and payment for California public agencies of employee and employer contributions under the provisions of the federal Social Security regulations.

Federal legislation was enacted on October 21, 1986, which required direct remittance of Social Security contributions by individual public agencies and eliminates the intermediary collection and remittance of such contributions by individual public agencies and by State Social Security agencies, such as the OASI. As such, effective January 1, 1987, the OASI stopped receiving contributions from public agencies. Since then the OASI fund has operated in the capacity of an intermediary in the reconciliation of past year's payroll contributions to the federal government and to reimburse the PERF for OASI contract management services. As reconciliations are completed, amounts will be collected and transmitted to the federal government or returned to the local governments. If any liabilities are owed which the OASI cannot collect, the State of California or the appropriate public agency is responsible for payment.

**HCF**

The Public Employees' Health Care Fund (HCF) was established under the Public Employees' Medical and Hospital Care Act (PEMHCA) as of July 1, 1988. The self-funded plans, PERS Choice, PERSCare, and PERS Select are risk pools available to all entities that contract for health insurance coverage under PEMHCA. Having all members in a single risk pool spreads catastrophic claims over a large base and minimizes administrative expenses. PERS Choice, PERSCare, and PERS Select retain all the risk of loss of allowable health claims. Fund members are not subject to a supplemental assessment in the event of deficiencies. Premium rates for PERS Choice, PERSCare, and PERS Select are set by the Board based on a trend analysis of the historic cost, utilization, demographics, and administrative expenses of the HCF to provide for the claims incurred and the actuarially determined required level of reserves.

PERS Choice, PERSCare, and PERS Select rely on operating cash flows and investment income to fund health benefit payments. During the 2008 fiscal year, the Board continued to increase member premiums to mitigate the impact of increasing costs associated with enrollment growth, increases in provider pricing, and increased benefit utilization. Management believes that the current sources of funding for PERS Choice, PERSCare, and PERS Select will be adequate to provide for benefits of the plans.

Public agencies participating in PERS Choice, PERSCare, and PERS Select are required to make periodic premium payments based on rates as established by CalPERS. Plan members pay the difference between the premium rate and the employers' contribution. Administrative costs are financed through investment earnings.

**CRF**

The Public Employees' Contingency Reserve Fund (CRF) was established in 1962, with the passage of PEMHCA, to fund administrative costs related to the PEMHCA program, and as a contingency reserve for such items as increases in future rates or in future benefits. PEMHCA was expanded to include local public agency employees on a contract basis in 1967. The CRF is reimbursed by the State and contracting public agencies for costs incurred for administering the program.

Activity in the CRF is reported in two separate fund types. Administrative fees collected and related costs are accounted for in the CRF proprietary fund type. Public agency health payments and remittances to contracted health care providers are reported in the CRF Agency Fund type.

PEMHCA establishes eligibility rules for the following:

- retirees and beneficiaries receiving health care benefits;
- terminated plan members entitled to but not yet receiving benefits; and
- active plan members.

Administrative costs include direct costs of the program and a proportionate share of indirect costs allocated to the CRF by the PERF. The administrative fee is determined as a percentage of insurance premiums paid by the employers. The administrative fee for the year ended June 30, 2008, was 0.29 percent. Contribution rates are reviewed annually and are adjusted, if needed, to cover budgeted administrative costs.

Public agency employers whose employees do not elect PERS Choice, PERSCare, or PERS Select submit the provider-determined, Board-approved premiums to the CRF Agency Fund, which in turn submits the premiums to the respective provider.

At June 30, 2008, 1,147 entities participated in health insurance coverage under PEMHCA.

### LTCF

The Public Employees' Long-Term Care Fund (LTCF) began providing self-insured long-term care plans in 1995. The LTCF operates by providing long-term care coverage to enrolled members under the Public Employees' Long-Term Care Act (PERL, Chapter 15). The fund contracts with a third party to administer the program. Long-term care coverage is offered to all public employees (active or retired), their spouses, parents, parents-in-law, and siblings. The LTCF is a member-paid program with no contributions from employers. Premium rates are recommended to the Board by the program actuary and are set by the Board. Prospective enrollees apply directly to the program for long-term care coverage.

As of June 30, 2008, there are 168,140 enrollees, of which 3,077 are receiving benefits.

The decrease in the unrestricted net deficit in the LTCF from $842.3 million in 2007 to $134.7 million in 2008 is attributable to premium rate increases and a decrease in the actuarially determined liability for future policy benefits. The CalPERS Board of Administration increased premiums in the 2007-08 fiscal year to eliminate future deficits. In addition, the LTCF is in the process of reviewing its current policies and exploring different options to address the deficit.

### DCF

The Public Employees' Retirement System Deferred Compensation Fund (DCF) accounts for revenues and expenses associated with administrative and investment management services provided to other governments by CalPERS staff. The services provided assist other governments with their administration of deferred compensation plans. Revenues come from fees charged to various State of California public agencies for managing 18 investment portfolios offered in the CalPERS IRC 457 plan and certain investments of the SPOFF and SCPF.

The DCF was established by Chapter 1659 of the 1990 Statutes, which added Government Code Sections 21420-21429. These Government Code Sections were subsequently renumbered to Government Code Sections 21670-21685 by Chapter 379 of the 1995 Statutes. Operation and initial funding of the DCF commenced July 1991.

### VFF

Pursuant to California State Law, the assets and liabilities of the Volunteer Firefighters' Fund (VFF) were transferred from CalPERS to the California State Fire Employees' Welfare Benefit Corporation (CSFEWBC). The Statutes of 2007, Chaper 651, SEC. 3 added Article 7 (commencing with Section 50980) to Chapter 4.5 of Division 1 of Title 5 of the Government Code which provided for the transfer of the data and files, assets and liabilities of the VFF from CalPERS to the CSFEWBC on or before March 1, 2008. Government Code Section 50985 provided that the transfer is deemed complete on the date CalPERS transferred the assets and liabilities of the VFF and Government Code Section 50984 provided that upon the transfer, CSFEWBC assumed all responsibility and liability of the VFF. CalPERS ceased to administer the VFF on February 29, 2008. On February 27, 2008, and February 29, 2008, CalPERS transferred $3,561,438 in cash, $46,122 in accounts receivable, and $6,000 in Death Benefits Payable to CSFEWBC. Effective February 29, 2008, responsibility for administration of the VFF was transferred to the CSFEWBC.

During the period ended February 29, 2008, management discovered that member contributions were overstated for the fiscal year ended June 30, 2007. Net assets held in trust for award benefits were restated as follows:

| | |
|---|---|
| Net assets, beginning of the year | $3,996,000 |
| Prior period adjustment | (69,000) |
| Net assets, beginning of the year, as restated | $3,927,000 |

## 2. Summary of Significant Accounting Policies

**Measurement Focus, Basis of Accounting & Basis of Presentation**

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Due to the types of investments held by the CRF agency and proprietary funds, JRF, RBF, and DCF, there was no appreciation (depreciation) in the fair value of investments in fiscal year 2008. The calculation of realized gains and losses is independent of the calculation of the change in the fair value of investments. Realized gains and losses of the current period include unrealized amounts from prior periods.

The accounts of CalPERS are organized and operated on the basis of funds. CalPERS has the following fund types at June 30, 2008:

***Fiduciary funds*** — including pension trust, other post-employment trust, and agency funds, account for assets held by the government in a trustee capacity or as an agent on behalf of others. The pension trust funds (PERF, LRF, JRF, JRF II, SPOFF, IRC 457, RBF, and SCPF) and the other post-employment health care fund (CERBTF) are accounted for on the flow of economic resources measurement focus and the accrual basis of accounting. Member contributions for the PERF, LRF, JRF, JRF II, IRC 457, and SCPF are recognized in the period in which the contributions are due. Employer contributions for the PERF, JRF, JRF II, SPOFF, CERBTF, and RBF are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits under the defined benefit plans and refunds are recognized when due and payable in accordance with the terms of each plan. The agency funds (OASI and CRF) are custodial in nature and do not measure the results of operations. Assets and liabilities are recorded using the accrual basis of accounting.

***Proprietary funds*** — including enterprise funds (HCF, CRF, LTCF, and DCF) are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. CalPERS applies all applicable GASB pronouncements in accounting and reporting for its proprietary operations, and follows FASB pronouncements issued prior to December 1, 1989, insofar as those standards do not conflict or contradict guidance of the GASB.

Operating revenues and expenses are distinguished from non-operating items and generally result from providing services in connection with ongoing operations. The principal operating revenues of the HCF, CRF, LTCF, and DCF are derived from self-insurance premiums and providing administrative services. Operating expenses include the cost of claims and related administrative expenses. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

**GASB Statement No. 50**

Effective July 1, 2007, CalPERS implemented the provisions of GASB 50. GASB 50 requires that information about the funded status of each pension plan as of the most recent actuarial valuation be disclosed in the notes to the financial statements. Additionally, GASB 50 requires disclosure of information about actuarial methods and assumptions used in valuations on which reported information about the ARC and the funded status and funding progress are based. The required schedules of funding progress immediately following the notes to the financial statements present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**Investments**

As a result of Proposition 162 (State Constitution, Article XVI, Section 17), the CalPERS Board of Administration has plenary authority and fiduciary responsibility for the investment of monies. CalPERS invests in stocks, bonds, mortgages, real estate, alternative, and other investments. Alternative investments include two components: direct investments and partnerships. CalPERS maintains certain deposits, cash equivalents, and other investments with financial institutions.

Investments are reported at fair value. Certain construction projects and alternative investments are reported at cost, which approximates market value. The fair values of investments in securities are generally based on published market prices and quotations from major investment firms. Many factors are considered in arriving at fair value. In general, corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Investments in certain restricted common stocks are valued at the quoted market price of the issuer's unrestricted common stock, less an appropriate discount. Investments held in internally and externally managed investment pools have been reported at fair value.

Mortgages are valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is estimated based on independent appraisals. Short-term investments are reported at market value, when available, or at cost plus accrued interest, which approximates market value when market values are not available. For investments where no readily ascertainable market value exists, management, in consultation with their investment advisors, has determined the fair values for the individual investments. Alternative investments are valued based upon partnerships' June 30, 2008 financial statements.

In December 2007, the CalPERS Board of Administration approved an investment asset allocation that includes a five percent allocation in an Inflation Linked Asset Class (ILAC). The ILAC is Board approved to include commodities, inflation-linked bonds, infrastructure, and forestland. At June 30, 2008, the ILAC held $1.6 billion of inflation-linked bonds, $0.1 billion in infrastructure, $1.6 billion in forestland, and $1.4 billion in commodities exposure.

There are certain market risks, credit risks, liquidity risks, foreign currency exchange risks, and event risks which may subject CalPERS to economic changes occurring in certain industries, sectors, or geographies.

**Derivatives**

Under the State Constitution and statutory provisions governing CalPERS investment authority, CalPERS holds investments in futures and options and enters into forward foreign currency exchange contracts. Futures and options with fair values of approximately negative $99.9 million are held for investment purposes and included within the financial statements at June 30, 2008. Gains and losses on futures and options are determined based upon quoted market values and recorded in the Statement of Changes in Fiduciary Net Assets.

Due to the level of risk associated with certain derivative investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could affect the amounts reported in the financial statements.

Forward foreign currency exchange contracts are used primarily to hedge against changes in exchange rates related to foreign securities. At June 30, 2008, CalPERS has approximately negative $99.5 million net exposure to loss from forward foreign currency exchange transactions related to the approximately $5.0 billion and $48.5 billion international debt and equity portfolios, respectively.

CalPERS could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. CalPERS investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. CalPERS anticipates that the counterparties will be able to satisfy their obligations under the contracts.

**Capital Assets**

Capital assets are defined by CalPERS as assets with an initial individual cost of $5,000 or more, and an estimated useful life in excess of one year.

Capital assets held by the PERF, consisting of buildings, furniture, and equipment, are recorded at cost or, if donated, at their estimated fair market value at the date of donation. Capital assets are depreciated over their estimated useful lives, ranging from one to five years for furniture and equipment and 40 years for buildings, using the straight-line method of depreciation.

**Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of net assets held in trust for pension and post-employment health care benefits and changes therein, IBNR, claims payable, LTCF liability, and disclosure of contingent liabilities at the date of the financial statements. Actual results could differ from those estimates.

**Comparative Totals**

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with CalPERS financial statements for the year ended June 30, 2007, from which the summarized information was derived.

**Reclassifications**

Certain reclassifications have been made to the comparative totals as of and for the year ended June 30, 2007, to conform to the presentation as of June 30, 2008.

## 3. Cash & Cash Equivalents

Cash and cash equivalents of approximately $427.8 million in 2008 represent amounts held in the CalPERS general operating accounts with the State Treasury. These monies are not individually identifiable by fund, as they are pooled with the monies of other State agencies and invested by the State Treasurer's Office.

## 4. Investments

For the year ended June 30, 2008, State Street Bank & Trust Company was the master custodian for significantly all of the securities of CalPERS, however, certain securities are held by alternative investment managers. Real estate deeds of trust are held in the name of Limited Liability Corporations and Partnerships. The investments held by the PERF, LRF, JRF II, SCPF, CERBTF, IRC 457, HCF, and LTCF have been commingled in internally managed investment pools. The investment pools are an internally managed domestic and international equity pool, and an internally managed debt securities pool. Each of the eight funds has a different asset allocation based on Board-approved policy.

In accordance with GASB Statement 40, CalPERS discloses investments of all CalPERS managed funds that are subject to certain risks: custodial credit risk, concentration of credit risk, interest rate risk, credit risk and foreign currency risk.

GASB Statement 40 investment risk disclosures begin on page 50, disclosing the investments subject to the various risks for the PERF and all other affiliate funds.

**Securities Lending**

The State Constitution and CalPERS Board policies permit CalPERS to use investments of the PERF to enter into securities lending transactions; collateralized loans of securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. CalPERS has contracted with Boston Global Advisors (BGA), eSecLending LLC (eSec), State Street Bank & Trust (SSB), and Wachovia Global Securities Lending as third-party securities lending agents to lend domestic and international equity and debt securities. Additionally, CalPERS contracts with eSecLending as an administrative agent for CalPERS principal borrowers.

Domestic and international securities are collateralized for cash at 102 percent and 105 percent, respectively, of the securities market value. Management believes CalPERS has minimized credit risk exposure to borrowers by requiring the borrower to provide collateralization greater than 100 percent of the market value of the securities loan. The securities loaned are priced daily. On June 30, 2008, the fair market value of the securities on loan was $33.9 billion.

In the event that a borrower fails to return the securities or fails to remit income distributions by the securities' issuers to CalPERS while the securities are on loan, the agent is responsible for the associated costs. Securities on loan can be recalled on demand by CalPERS, and loans of securities may be terminated by CalPERS or the borrower. CalPERS may enter into term loan agreements which are evaluated on an individual basis.

The cash collateral is invested in accordance with CalPERS investment guidelines in short-term, high-credit quality fixed income securities. Currently, eSec and CalPERS manage the unrated cash collateral pools. For the year ended June 30, 2008, the cash collateral pools invested by eSec and CalPERS had weighted average maturities of 46 days, 364 days, 499 days, and 57 days, respectively, and durations of 1, 21, 22, and 2 days, respectively.

The following investment risk schedules disclose CalPERS investments subject to certain types of risk, pursuant to GASB Statement 40. Each schedule discloses investments of all funds managed by CalPERS subject to each type of risk. Some securities are held in internally-managed investment pools shared by all funds.

### Custodial Credit Risk

CalPERS does not have any funds or deposits that are not covered by depository insurance, which are either uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent, but not in CalPERS name. Nor does CalPERS have any investments that are not registered in the name of CalPERS and are either held by the counterparty or the counterparty's trust department or agent, but not in CalPERS name.

### Concentration of Credit Risk

CalPERS does not have investments in any one issuer which represent 5 percent or more of total fair value of all investments.

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is managed within the portfolios using the effective duration or option-adjusted methodology. The System's investment policies require the option-adjusted duration of the total fixed income portfolio to stay within 20 percent of the option-adjusted duration of its benchmark (Lehman Brothers Long Liabilities). All individual portfolios are required to maintain a specified level of risk relative to their benchmark. Risk exposures are monitored daily. These are reported grouped by effective duration ranges.

### Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The System's investment policies establish general as well as specific risk measures for the fixed income portfolio. From the most general perspective, 90 percent of the total fixed income portfolio must be invested in investment-grade securities.

Investment-grade securities are those fixed income securities with a Moody's rating of AAA to BAA or a Standard & Poors rating of AAA to BBB. Each portfolio is required to maintain a specified risk level. Portfolio exposures are monitored daily.

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### Foreign Currency Risk

Foreign currency risk is defined as any deposits or investments that are denominated in foreign currencies, which bear a potential risk of loss arising from changes in currency exchange rates. The System's asset allocation and investment policies allow for active and passive investments in international securities. The System's target allocation is to have 40 percent of total global equity assets invested in international equities and 8.5 percent of total fixed income invested in international securities. Real estate and alternative investments do not have a target allocation for international investments. The System uses a currency overlay program to reduce risk by hedging approximately 25 percent of the developed market international equity portfolio. Currency exposures are monitored daily.

## CalPERS — Debt Security Investments Subject to Interest Rate Risk

(Dollars in Thousands)

| Debt Security Type | Fair Value June 30, 2008 | Percent of All Debt Securities | Portfolio Weighted Average Effected Duration (Years) |
|---|---|---|---|
| U.S. Treasuries & Agencies | $7,508,022 | 12.2 % | 10.27 |
| Mortgages | 27,276,700 | 44.3 | 5.43 |
| Corporate | 17,879,260 | 29.0 | 8.71 |
| Asset Backed | 1,091,790 | 1.8 | 6.61 |
| Private Placement | 5,494 | 0.0 | 4.64 |
| International | 5,656,320 | 9.2 | 7.41 |
| SWAPS | 128,672 | 0.2 | 1.33 |
| Commingled | 3,220 | 0.0 | 2.17 |
| No Effective Duration: | | | |
| International | 6,289 | 0.0 | N/A |
| Commingled | 28,931 | 0.0 | N/A |
| Cash Equivalent | 471,628 | 0.8 | N/A |
| Corporate | 143,239 | 0.2 | N/A |
| Asset Backed | 589,812 | 1.0 | N/A |
| Options | 127,535 | 0.2 | N/A |
| SWAPS | -3,601 | 0.0 | N/A |
| Mortgages | 294,378 | 0.5 | N/A |
| Private Placement | 380,898 | 0.6 | N/A |
| **Total [1]** | **$61,588,587** | **100.0%** | |

Notes:

[1] The above table represents the fair value of investments in the fixed income portfolios. The debt securities investments line item in the statement of fiduciary net assets and the statement of net assets are reported at net asset value which includes accruals for certain unitized portfolios.

## CalPERS — At Fair Value Subject to Credit Risk

(Dollars in Thousands)

Debt investment securities of all CalPERS managed funds at fair value that are subject to credit risk.

| Moody's Quality Rating | Fair Value | Fair Value as a Percent of Total Debt Security Investments |
|---|---|---|
| AAA | $28,281,870 | 45.9% |
| AA-1 | 424,190 | 0.7 |
| AA-2 | 1,437,330 | 2.3 |
| AA-3 | 2,423,946 | 3.9 |
| A-1 | 1,679,676 | 2.7 |
| A-2 | 1,906,369 | 3.1 |
| A-3 | 1,535,279 | 2.5 |
| BAA-1 | 3,795,745 | 6.2 |
| BAA-2 | 3,287,424 | 5.3 |
| BAA-3 | 1,830,729 | 3.0 |
| BA-1 | 589,472 | 1.0 |
| BA-2 | 208,286 | 0.3 |
| BA-3 | 66,310 | 0.1 |
| B-1 | 131,603 | 0.2 |
| B-2 | 95,031 | 0.2 |
| B-3 | 189,744 | 0.3 |
| CA | 1,676 | 0.0 |
| C | 576 | 0.0 |
| NA[1] | 6,963,380 | 11.3 |
| NR[2] | 6,739,951 | 11.0 |
| **Total[3]** | **$61,588,587** | **100.0%** |

Notes:

1 NA represents those securities that are not applicable to the rating disclosure requirements.
2 NR represents those securities that are not rated.
3 The above table represents the fair value of investments in the fixed income portfolios. The debt securities investments line item in the statement of fiduciary net assets and the statement of net assets are reported at net asset value which includes accruals for certain unitized portfolios.

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## CalPERS — International Investment Securities — At Fair Value at June 30, 2008

(U.S. Dollars in Thousands)

Investment securities of all CalPERS managed funds that are subject to foreign currency risk.

| Currency | Equity | Alternative Investments | Fixed Income | Real Estate | Cash | Total |
|---|---|---|---|---|---|---|
| Argentine Peso | $4,587 | $ — | $109 | $ — | $463 | $5,159 |
| Australian Dollar | 2,672,691 | 58,373 | 113,000 | 13,316 | 17,518 | 2,874,898 |
| Brazilian Real | 852,879 | — | — | — | 1,626 | 854,505 |
| Canadian Dollar | 3,092,974 | 137,484 | 31,335 | — | 8,958 | 3,270,751 |
| Chilean Peso | 52,599 | — | — | — | 202 | 52,801 |
| Czech Koruna | 65,791 | — | — | — | 244 | 66,035 |
| Danish Krone | 383,493 | 625 | 61,215 | — | 14,526 | 459,859 |
| Egyptian Pound | 77,501 | — | — | — | — | 77,501 |
| Euro Currency | 15,173,963 | 2,005,046 | 1,991,672 | 25,749 | 204,017 | 19,400,447 |
| Hong Kong Dollar | 2,014,530 | — | — | 24,928 | 16,992 | 2,056,450 |
| Hungarian Forint | 64,829 | — | 2,088 | — | 231 | 67,148 |
| Iceland Krona | — | — | 4,275 | — | — | 4,275 |
| Indian Rupee | 471,638 | — | — | — | 2,152 | 473,790 |
| Indonesian Rupiah | 201,524 | — | — | — | 462 | 201,986 |
| Israeli Shekel | 195,311 | — | — | — | 1,071 | 196,382 |
| Japanese Yen | 7,568,423 | 1,126,576 | 1,488,078 | 57,636 | 534,759 | 10,775,472 |
| Malaysian Ringgit | 179,556 | — | — | — | 6,083 | 185,639 |
| Mexican Peso | 344,510 | — | 62,399 | — | 3,814 | 410,723 |
| Moroccan Dirham | 797 | — | — | — | 87 | 884 |
| New Taiwan Dollar | 786,281 | — | — | — | 24,083 | 810,364 |
| New Turkish Lira | 256,189 | — | — | — | 656 | 256,845 |
| New Zealand Dollar | 37,607 | — | 9,262 | 2,277 | 1,385 | 50,531 |
| Norwegian Krone | 485,241 | — | — | — | 10,226 | 495,467 |
| Pakistan Rupee | 96 | — | — | — | 2 | 98 |
| Peruvian Nouveau Sol | 454 | — | — | — | 12 | 466 |
| Philippine Peso | 46,108 | — | — | — | 363 | 46,471 |
| Polish Zloty | 84,947 | — | 30,645 | — | 466 | 116,058 |
| Pound Sterling | 7,825,188 | 379,812 | 271,592 | 205,309 | 74,365 | 8,756,266 |
| Singapore Dollar | 552,186 | — | 15,278 | 39,092 | 5,390 | 611,946 |
| South African Rand | 610,184 | — | 7,172 | — | 838 | 618,194 |
| South Korean Won | 1,141,066 | — | 9,488 | — | 2,958 | 1,153,512 |
| Sri Lanka Rupee | 413 | — | — | — | 16 | 429 |
| Swedish Krona | 819,840 | — | 160,212 | — | 23,397 | 1,003,449 |
| Swiss Franc | 2,469,704 | 306 | — | 1,514 | 12,396 | 2,483,920 |
| Thailand Baht | 170,802 | — | 3,985 | — | 2,454 | 177,241 |
| Yuan Renminbi | — | — | — | — | 54 | 54 |
| **Total** | **$48,703,902** | **$3,708,222** | **$4,261,805** | **$369,821** | **$972,266** | **$58,016,016** |

### Real Estate

Real estate investments are classified as investments in accordance with GASB Statement 25. Certain real estate investments are leveraged whereby partnerships have been established to purchase properties through a combination of contributions from CalPERS and other investors and through the acquisition of debt. At June 30, 2008, real estate equities of approximately $41.0 billion are reported at estimated fair market value. Of this amount, $22.0 billion is equity and $13.9 billion is long-term mortgages payable, and $5.2 billion is other short-term liabilities.

**Required repayment of real estate debt is as follows:**

(Dollars in Thousands)

| Debt Matures Year Ending June 30 | Amount |
|---|---|
| 2009 | $2,154,209 |
| 2010 | 2,699,990 |
| 2011 | 1,961,656 |
| 2012 | 1,622,342 |
| 2013 | 1,504,569 |
| 2014-2018 | 3,017,442 |
| 2019-2023 | 258,666 |
| 2024-2028 | 235,151 |
| 2029-2033 | 235,151 |
| 2034-2038 | 235,151 |
| **Grand Total** | **$13,924,327** |

### Other Investment Income

Total other investment income earned by CalPERS in the 2008 fiscal year is $155.6 million. This total consists of income from securities litigation, sale of fractional shares, other miscellaneous income earned across all other investment portfolios, amortization income earned in the fixed income portfolios, and $1.2 million from the directed brokerage program.

## 5. Contributions & Reserves

### Employer Contributions Actuarially Determined & Contributions Made

Employer contributions are calculated as a percentage of employer payroll. OPEB plan employer contributions are voluntarily determined by the employer and there are no long-term contracts for contributions. The payroll for employees covered by the PERF, JRF, and JRF II in 2008 was approximately $43.9 billion, $124.8 million, and $173.8 million, respectively.

The actuarial cost methods used are Entry Age Normal for the CERBTF and Individual Entry Age Normal for the PERF, LRF, and JRF, and Aggregate Entry Age Normal for the JRF II. These actuarial cost methods are projected Benefit cost methods. That is, the method takes into account those benefits that are expected to be earned in the future, as well as those already accrued.

According to this cost method, the normal cost percent for an employee pension liability is the level percentage of payroll amount which would fund the projected benefit if it were paid annually from date of employment until retirement. The Entry Age Normal Actuarial Cost Method used by the PERF, CERBTF, and JRF II is modified by CalPERS so that the employers' total normal cost is expressed as a level percentage of payroll. The PERF, CERBTF, and JRF II use the level percentage of payroll method to amortize any unfunded actuarial liabilities.

The significant actuarial assumptions used in the 2007 valuations to compute the actuarially determined contribution requirements for the PERF and JRF II are the same as those used to compute the actuarial accrued liability. The CERBTF uses assumptions similar to the pension plans with the addition of the Health Cost Trend Rate assumption.

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**Restrictions on Net Assets Available for Benefits**

Included in the Net Assets Held in Trust for Pension Benefits is a restricted reserve that, by law, is retained in the PERF and LRF as a reserve against deficiencies in interest earned, potential losses under investments, court-mandated costs, and actuarial losses resulting from terminations, mergers, or dissolutions of contracting agencies. This reserve cannot exceed 0.2 percent of total assets of the PERF and the LRF, and totaled approximately $483.0 million and $270,000 as of June 30, 2008, for the PERF and LRF, respectively.

**PERF**

Actuarial valuations of the PERF are performed annually. The last valuation was performed as of June 30, 2007, for the State, schools, and public agencies.

The total 2008 net retirement contributions for the PERF amounted to approximately $10.8 billion, of which $7.2 billion (the actuarially determined annual required contribution) came from 1,573 employers and approximately $3.5 billion came from nearly 837,000 members. The contributions to the PERF were for the retirement program, the 1959 Survivor Program, and the Group Term Life Insurance Program. For the retirement program, the average employer normal cost is 10.553 percent of covered payroll, and amortization of the unfunded liabilities is 4.793 percent of covered payroll. These figures are averages for all employers. The actual figures vary by each employer's plan.

**LRF**

The current contribution requirements of the LRF are based on actuarially determined rates promulgated as part of legislation passed in 1977.

Actuarial valuations of the LRF are required to be carried out at least every two years. The Board of Administration utilizes these actuarial valuations to make recommendations to the State for financing the Fund. For the fiscal year ending June 30, 2008, there was no statutory contribution required based on the June 30, 2006 valuation.

**JRF**

Contributions made by the State of California to the JRF are made pursuant to State statute and are not actuarially determined; however, an actuarial valuation of the JRF assets and liabilities is performed every year and is used by CalPERS to make recommendations for financing the JRF.

The California law which states that on and after January 1, 2004, the JRF shall be funded and actuarially sound was amended in conjunction with the adoption of the Judges' Retirement System II Law, which, among other provisions, eliminated the requirement that the JRF be funded and actuarially sound. Recommendations to achieve the necessary level of contributions have been submitted by the CalPERS Board to the Legislature.

As of June 30, 2008, funding was provided from the following sources to meet benefit payment requirements:

- ***Member Contributions*** — 8 percent of applicable member compensation;
- ***Employer Contributions*** — 8 percent of applicable member compensation;
- ***Filing Fees*** — Varying amounts depending on fee rate and number of filings;
- ***Investments*** — Current yield on short-term investments;
- ***State of California "Balancing Contributions"*** — An amount required by the Judges' Retirement Law, at least equal to the estimated benefits payable during the ensuing fiscal year less the sum of 1) the estimated member contributions during the ensuing fiscal year and; 2) net assets available for benefits at the beginning of the fiscal year.

Under the pay-as-you-go basis, short-term investments as well as contributions received during the year are used to make benefit payments. Management and legal counsel believe the State of California is legally required to provide these required contributions to fund the benefits.

For the year ended June 30, 2008, the actual contributions made by the State to the JRF were approximately $163.2 million, which is significantly less than the actuarially determined annual required contribution of approximately $623.5 million.

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Because current contributions are used to make benefit payments, the fund does not retain the accumulated contributions of active members. The cumulative contributions of all currently active members since inception were approximately $172.8 million at June 30, 2008, which exceeded Net Assets Held in Trust for Pension Benefits by approximately $153.5 million at June 30, 2008.

### JRF II

Actuarial valuations for the JRF II are required to be carried out annually. The legislated State contribution rate will be adjusted periodically as part of the annual Budget Act in order to maintain or restore the actuarial soundness of the fund. The last actuarial valuation was performed as of June 30, 2007.

For the year ending June 30, 2008, the statutory employer contribution rate was 19.916 percent based on the June 30, 2006 actuarial valuation. Therefore, for the year ended June 30, 2008, the contributions made by the State to the fund were approximately $36.8 million, which is more than the actuarially determined required contributions of approximately $31.7 million.

### CERBTF

The actuarial valuations for the CERBTF are conducted by outside actuarial firms engaged by participating employers that must base their valuations on the CalPERS OPEB Assumption Model. This model requires the use of actuarial methods and assumptions similar to those employed for the PERF. An additional assumption used for the CERBTF is the health care cost trend rate. The actuarial valuation estimates the cost of future health and other post-employment benefit insurance premiums for current and retired participating employees.

The total 2008 actual net OPEB employer contribution from 72 participating employers was $786.7 million, compared to the actuarially determined annual required contribution of 8.9 percent of covered payroll, or $450.8 million. This amount includes the $655.0 million in contributions made to the CERBTF, plus another $180.6 million in retiree health care premiums paid by employers directly to providers, implicit rate subsidies, and other GASB 45 compliant costs recognized by employers as contributions toward the ARC and excludes $48.9 million of actual contributions made to the CERBTF that were treated as existing assets for purposes of calculating the annual required contribution.

CERBTF calculations are based upon plan benefits defined by the Public Employees Hospital Care Act (PEMHCA) in effect at the time of the valuations. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of future employer and employee cost sharing.

## 6. Commitments

At June 30, 2008, CalPERS total capital commitments to private equity funds was $57.7 billion. Of this amount, $26.4 billion remained unfunded and is not recorded on the CalPERS Statement of Fiduciary Net Assets.

At June 30, 2008, CalPERS total commitments to real estate portfolios was $29.6 billion. Of this amount, $17.1 billion remained unfunded and is not recorded on the CalPERS Statement of Fiduciary Net Assets.

## 7. Contingencies

CalPERS has entered into agreements with a number of issuers of non-taxable debt to provide payment of principal and interest in the event of non-payment. CalPERS is paid a quarterly fee over the term of the agreement for each transaction. The majority of the transactions are supported by collateral, letters of credit from banks or bond insurers for repayment. As of June 30, 2008, the credit enhancement program had contingent liabilities of approximately $1.7 billion and net fee income of approximately $2.4 million.

CalPERS is a defendant in litigation involving individual benefit payment and participant eligibility issues and arising from its normal activities. In the event of an adverse decision, any payments awarded by the courts would be recovered by CalPERS through prospective adjustments to the employer contribution rate. Based upon consultation with legal counsel, management believes there will be no material adverse effect on the basic financial statements as a result of the ultimate outcome of these matters.

However, the LRF is a defendant in litigation involving the payment of survivor death benefits and interest to a deceased retiree's surviving spouse in the amount of $3.6 million. The matter is currently on appeal with the Court of Appeal of the State of California.

## 8. Health Care Fund

### Basis for Estimated Liabilities

The Public Employees' Health Care Fund (HCF) establishes claim liabilities based on estimates of the ultimate costs of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been "incurred but not reported" (IBNR). The estimated claims liability was calculated by Blue Cross, the HCF's third-party administrator, at June 30, 2008, using a variety of actuarial and statistical techniques and adjusted for actual experience to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. The estimated claims liability of $188.0 million is carried at its face amount, and no interest discount is assumed. The IBNR portion represents an estimate for claims that have been incurred prior to June 30, 2008, but have not been reported to the HCF.

### Anticipated Investment Income and Reinsurance

Anticipated investment income is not included in the annual premium requirement for HCF members. Also, the HCF has not entered into any reinsurance or excess insurance agreements.

## 9. Long-Term Care Fund

The Public Employees' Long-Term Care Fund (LTCF) estimate of the funding level to provide for the payment of future claim benefits is predicated upon participation levels that are expected to be achieved by the program. The premiums from the LTCF are recognized during the period covered.

The LTCF establishes the liability for future policy benefits based on the present value of future benefits and expenses less the present value of future premiums. The liability for future policy benefits was calculated by the fund's actuary, using a variety of actuarial and statistical techniques as part of their actuarial review as of June 30, 2008. Certain key assumptions used in this calculation are a discount rate of 7.79 percent (the average rate of assumed investment yields in effect for the current year), morbidity, disability continuance, mortality, voluntary termination, and claims

The following represents changes in the aggregate estimated claims liabilities of the HCF for the years ended June 30.

(Dollars in Thousands)

| | PERSCare/PERS Choice | |
|---|---|---|
| | **2008** | **2007** |
| **Total Estimated Claims at Beginning of Fiscal Year** | **$173,422** | **$159,063** |
| **Incurred Claims & Claim Adjustment Expenses** | | |
| Provision for Insured Events of the Current Fiscal Year | $1,385,438 | $1,268,240 |
| Decrease in Provision for Insured Events of Prior Years | (70,907) | (55,533) |
| **Total Incurred Claims & Claim Adjustment Expenses** | **$1,314,531** | **$1,212,707** |
| **Payments** | | |
| Claims & Claim Adjustment Expenses Attributable to Insured Events of the Current Year | $1,197,390 | $1,094,818 |
| Claims & Claim Adjustment Expenses Attributable to Insured Events of the Prior Fiscal Year | 102,515 | 103,530 |
| **Total Payments** | **$1,299,905** | **$1,198,348** |
| **Total Estimated Claims at End of the Fiscal Year** | **$188,048** | **$173,422** |

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expense. The total estimated liability for future policy benefits as of June 30, 2008, was $2.4 billion. Of that amount, $131.3 million is expected to be paid in fiscal year 2009 and is included in current liabilities.

## 10. CERBTF, PERF, LRF, JRF, and JRF II Funded Status

The following represents the funded status of the post-employment health care plan and the CalPERS pension trust funds as of the most recent valuation date. These actuarial valuations involve estimates of the value and probability assumptions of events far into the future, and these amounts and assumptions are subject to continual revision as actual results are compared to past expectations. Calculations are based on the benefits provided under the terms of the plan in effect and the pattern of cost sharing between employees and the employer. The projection of benefits does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing. These actuarial calculations reflect long-term perspectives and use techniques that are designed to reduce short-term volatility.

The schedule of funding progress is included in the Required Supplemental Schedules section that follows. The as of dates for the Required Supplemental Schedules

### Funded Status of the CERBTF

(Dollars in Millions)

| Actuarial Valuation Date | Actuarial Value of Assets (1) | Actuarial Accrued Liability (AAL) - Entry Age (2) | Unfunded AAL (UAAL) (2)-(1) | Funded Ratio (1)/(2) | Annual Covered Payroll (3) | UAAL as a % of Covered Payroll [(2)-(1)]/(3) |
|---|---|---|---|---|---|---|
| **CERBTF** | | | | | | |
| 6/30/08 [1] | $48.4 | $4,845.0 | $4,796.6 | 1.0% | $5,091.9 | 94.2% |

| Actuarial Methods and Significant Assumptions | CERBTF | |
|---|---|---|
| Valuation Date | Varies 2 | |
| Actuarial Cost Method | Entry Age Normal | |
| Amortization Method | Varies 2 | |
| Remaining Amortization Period | Varies 2 | |
| Amortization Approach | Varies 2 | |
| Asset Valuation Method | Current Market Value | |
| Health Care Cost Trend Rates: | | |
| Select Period | 0 - 10 Years | |
| Initial Rate | 4.00 - 12.00 | % |
| Ultimate Rate | 4.00 - 6.00 | % |
| Actuarial Assumptions: | | |
| Net Investment Rate of Return | 7.75 | % |
| Projected Salary Increases 3 | 3.25 | % |
| Post Retirement Benefit Increase | N/A | |

The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

Notes:

1 The June 30, 2008 financial reporting is based on a total of 72 individual actuarial valuations with valuation dates ranging from January 1, 2006 to June 30, 2008. As a result, the asset values in this schedule will not equal the asset values on June 30, 2008.

2 The June 30, 2008 financial reporting is based on a total of 72 individual actuarial valuations with valuation dates ranging from January 1, 2006 to June 30, 2008, and using both closed and open amortization methods. Also, for the vast majority of the valuations, the unfunded liability is amortized over 30 years and the remainder use periods ranging between 1 year and 29 years.

3 Includes inflation at 3.00 percent.

# Notes to the Basic Financial Statements (continued)

## Funded Status of the PERF, LRF, JRF, and JRF II

(Dollars in Millions)

| Fund | Actuarial Valuation Date | Actuarial Value of Assets (1) | Actuarial Accrued Liability (AAL) - Entry Age (2) | (3) Unfunded AAL (UAAL) (Funding Excess) (2)-(1) | Funded Ratio (1)/(2) | (4) Annual Covered Payroll | UAAL as a % of Covered Payroll (3)/(4) |
|---|---|---|---|---|---|---|---|
| PERF | 6/30/07 | $216,484 | $248,224 | $31,739 | 87.2% | $40,864 | 77.7% |
| LRF | 6/30/07 | 142 | 102 | (40) | 139.4 | 2 | (1901.0) |
| JRF | 6/30/07 | 12 | 2,714 | 2,702 | 0.4 | 119 | 2,265.3 |
| JRF II | 6/30/07 | 268 | 295 | 27 | 90.7 | 156 | 17.5 |

## Actuarial Information

Assumptions shown below are those used in the most recent actuarial valuations.

| | PERF | LRF | JRF | JRF II |
|---|---|---|---|---|
| Valuation Date | June 30, 2007 | June 30, 2007 | June 30, 2007 | June 30, 2007 |
| Adoption Date | Various | Various | Various | Various |
| Actuarial Cost Method | Individual Entry Age Normal Cost | Individual Entry Age [4] Normal Cost | Individual Entry Age [4] Normal Cost | Aggregate Entry Age Normal Cost |
| Amortization Method | Level Percentage of Payroll | None [2] | None [2] | Level Percentage of Increasing Payroll |
| Amortization Approach | Closed (Open for Gains and Losses) | None [2] | None [2] | Closed [3] |
| Remaining Amortization Period | 28 years for Schools, average of 21 years for Public Agencies, and 21 to 28 years for the State plans | None [2] | None [2] | Average of 30 years |
| Asset Valuation Method | Smoothing of Market Value | Smoothing of Market Value | Market Value | Smoothing of Market Value |
| Actuarial Assumptions: | | | | |
| Net Investment Rate of Return | 7.75% | 7.00% | 7.00% | 7.25% |
| Projected Salary Increases [1] | Varies, based on duration of service | 3.25% | 3.25% | 3.25% |
| Post Retiremen Benefit Increase | For State and Schools, 2% or 3% compounded annually<br>For Public Agencies, 2% to 5% compounded annually, depending on the agency plan provisions | 3.00% | 3.25% | 3.00% |

The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

Notes:

1 Includes inflation at 3.00% for all funds.
2 The Aggregate Cost Method does not identify or separately amortize unfunded actuarial liabilities.
3 Payroll has been increased by future new entrants replacing JRS retirements and terminations. The impact of including these new entrants has been determined to not materially impact the ARC amount.
4 For funding purposes and the calculation of annual required contributions, the Aggregate Cost Method is used.

of Employer Contributions were June 30, 2006, for PERF State and Schools, LRF, JRF, and JRF II; and June 30, 2005, for the PERF Public Agencies.

## 11. Subsequent Events

Subsequent to the June 30 fiscal year end, the financial markets continued to experience high volatility with an outcome that negatively affected all asset classes. As of October 31, 2008, the Public Employees' Retirement Fund (PERF) investment portfolio, excluding securities lending collateral, had declined by an estimated $50.4 billion in value to $186.7 billion based on net of fees reporting by State Street Bank. The most significant decline was in the domestic and international public equity portfolios. These portfolios declined $40.5 billion or 33.0 percent during this period. The privately held investments, due to their less frequent valuation cycles, experienced smaller declines.

CalPERS had exposure to financial institutions that were either acquired by another institution, the U.S. Government, or filed for bankruptcy during this period. CalPERS continually monitors the value of its investments that are involved in these transactions, however, the final value is not certain until the bankruptcy process or acquisition has been completed. After June 30, the more noteworthy equity and debt holdings that declined in value were American International Group (AIG), Fannie Mae, Freddie Mac, Lehman Brothers, and Washington Mutual. CalPERS holdings in these five firms decreased approximately $1.7 billion.

In addition, CalPERS Real Estate Program continued to experience declines due to overall market conditions and negative returns in the Housing Program. These declines were driven by a combination of a slowdown in absorption/sales of new homes, and value declines resulting from the annual independent appraisal process.

The overall risk profile of the PERF has remained unchanged since June 30, 2008, and the volatility of the investment portfolio remains in line with the overall financial markets. The global capital markets are highly dynamic and the value of the PERF changes every day. CalPERS continues to rely on the long-held investment philosophy of diversification and the search for long-term value. Up-to-date investment portfolio information is published monthly as part of the Investment Committee agenda. Please visit www.calpers.ca.gov for more information.